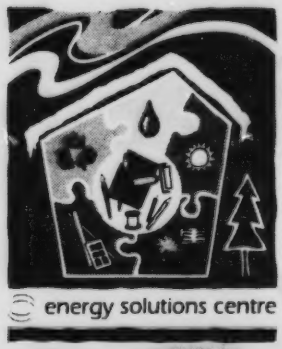
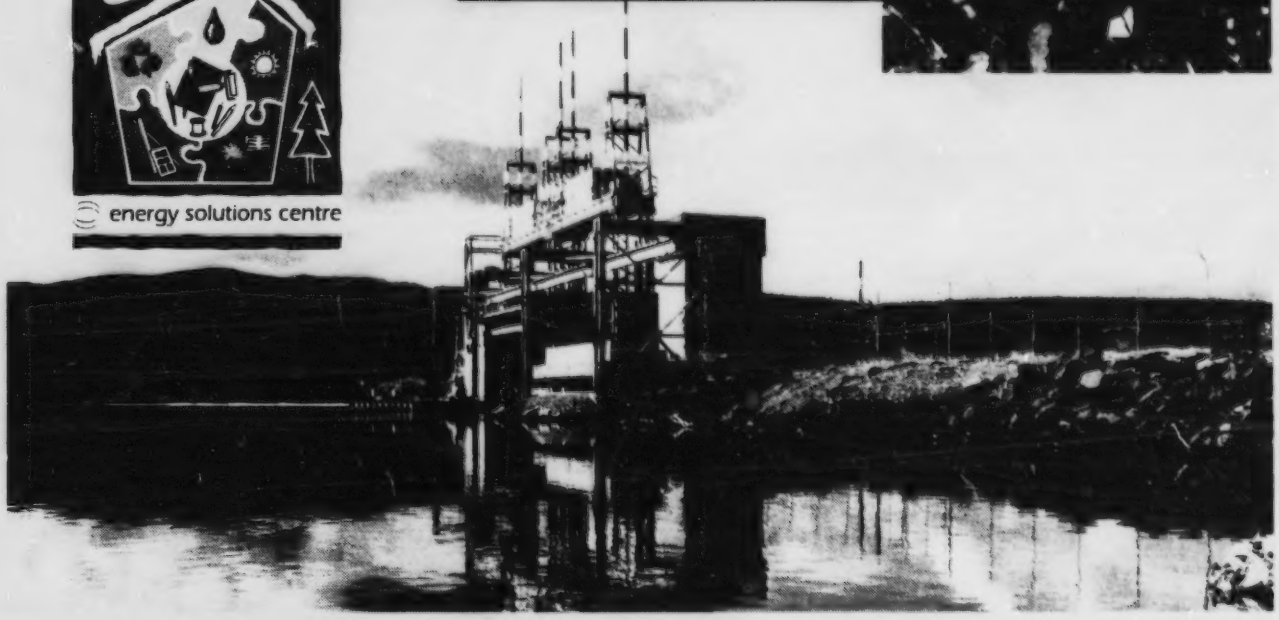
Yukon Development Corporation
Yukon Energy Corporation

Annual report
2001





Yukon Development Corporation

YUKON ENERGY

103-00604/

June 28, 2002

Honourable Scott Kent
Minister Responsible for Yukon Development Corporation
Government of Yukon
Box 2703 (A-5)
Whitehorse, Yukon YlA 2C6

Dear Minister Kent:

Re: 2001 Annual Report

On behalf of the Board and management, I am pleased to present the 2001 annual report for Yukon Development Corporation and Yukon Energy Corporation. The highlights are as follows:

The construction of the Mayo-Dawson City transmission line began and planning started for a line between Carmacks and Stewart Crossing to integrate the territory's electrical network. Consistent with Yukon Energy's other facilities, efforts continued to secure a 25-year water license from the Yukon Territory Water Board for the Aishihik Lake hydro generating station.

Yukon Development Corporation and Yukon Energy Corporation furthered cooperative relationships with First Nation governments through various joint initiatives including the implementation of the benefits agreement with Nacho Nyak Dun and Tr'ondëk Hwëch'in for the Mayo-Dawson City transmission line project. The delivery of the Rate Stabilization Fund continued and as a result of government direction, will now extend to March 31, 2005.

The past year saw significant advancements in efficiency and renewable energy. The Energy Solutions Centre was established by Yukon Development Corporation in partnership with Natural Resources Canada to provide integrated technical services and energy cost-savings for consumers while reducing greenhouse gas emissions.

Yukon Development Corporation continued to implement the protocols that define the roles and responsibilities of the Minister, Board and management as well as the relationships between the corporation and its subsidiaries. In addition to developing a strategic plan for the corporation, an accountability plan was established as part of the government's Renewal process.

Yukon Development Corporation and its subsidiaries were pleased to receive Gold Level Reporter status and the Leadership Award for Small and Medium-sized Enterprise from the Voluntary Challenge and Registry Inc. for reducing greenhouse gas emissions. The companies' innovative energy programs and services led to national recognition for its efforts in wind energy research and development, and assisted the government to achieve the highest mark for energy efficiency in the country for the second consecutive year.

I am proud to note that these activities occurred in a period of ongoing cost control and declining revenue from electricity sales. Yukon Energy's continued focus on long-term rate stabilization for consumers allowed a General Rate Application to the Yukon Utilities Board to be avoided for the fifth consecutive year.

Yours sincerely,

Lorne Austring, Chair
Yukon Development Corporation
Yukon Energy Corporation

cc Board of Directors

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COMPANY PROFILE

Yukon Development Corporation

Yukon Development Corporation is a crown corporation created in 1986 by the *Yukon Development Corporation Act*. It is governed by a board of directors appointed by the Yukon government and has a legislative mandate to participate with the private sector in the economic development of the Yukon. In particular, the act mandates the corporation to:

- develop, and promote the development of, Yukon resources on an economic and efficient basis;
- promote employment and business opportunities for territorial residents;
- assure a continuing and adequate supply of energy in a manner consistent with sustainable development; and
- implement development policy directives issued to it by the Yukon Cabinet.

The corporation currently maintains one investment made within the full scope of its statutory mandate.

A government Order-in-Council in 1993 restricted the corporation's role to energy-related activities designed to promote the economic development of the Yukon. In addition to its mandate, the corporation is to:

- alleviate the effects of any energy shortage that may occur; and
- promote the establishment, development and operation within the Yukon of industries or undertakings that are by their nature energy-dependent through the provision of cost-effective energy or energy-related infrastructure.

The corporation has four primary functions. It acts as a sole shareholder in the subsidiaries Yukon Energy and the Energy Solutions Centre Inc.; invests in energy infrastructure planning and development; conducts research and development; and designs, delivers and coordinates energy programs and services. Programs and services include initiatives like energy efficiency, green power, rate stabilization, and rural electrification for residential and commercial consumers.

YEAR IN REVIEW

Yukon Development Corporation

ENERGY EFFICIENCY

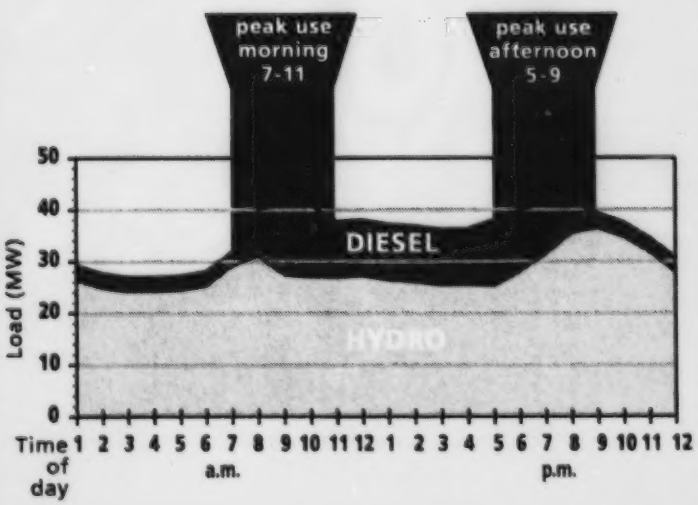
Energy efficiency activities pursued by Yukon Development Corporation in 2001 primarily focused on reducing or displacing fossil fuels for electricity generation and heating by promoting demand side management, facilitating the use of surplus hydroelectricity and encouraging the uptake of alternative heating sources.

These activities provided consumer cost savings, decreased utility expenses to reduce pressure for rate increases because of rising world fuel prices, and benefited the environment by reducing greenhouse gases.

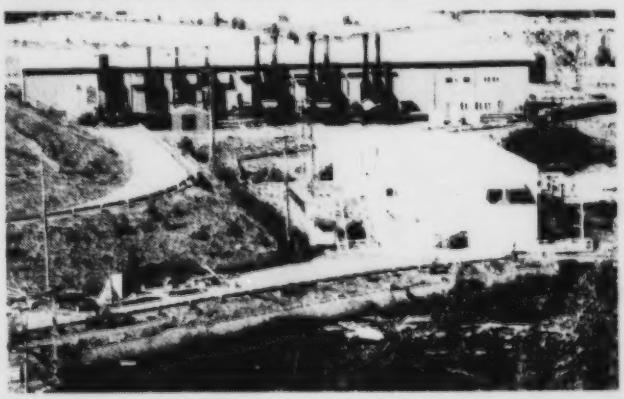
DEMONSTRATING THE POWER OF CONSERVATION

The second year of the Penguin and Six-Pack pilot projects was completed in 2001. Both initiatives are designed to reduce peak loading by using technology (as opposed to altering consumer behaviour) without compromising system reliability or living comfort. The objective is to determine if these control devices can be more widely installed, thereby decreasing diesel-generated power.

In late 2000, the Penguin Pilot Project installed hot water heater timers in 50 Whitehorse households to measure customer acceptance. On weekdays from September to April, the timers turned off power to hot water tanks during peak times in the morning and afternoon. The timer schedule was designed to ensure that hot water was available to coincide with a typical household's needs. As part of the pilot project, all participating households had their hot water tanks wrapped with insulation blankets to reduce heat loss.



Over the course of a typical winter day, electrical needs are met by hydro power, except in the morning and late afternoon, when the system may rely on diesel to make up for peak demands.



The Six-Pack Pilot Project replaced 12 parking lot receptacles with individually programmed timers in six commercial and institutional locations in Whitehorse. The timers controlled the flow of electricity from a parking lot outlet to a vehicle's block heater, oil pan and battery blanket on a five-minute cycle based on a sensor that monitored the outside temperature. The colder it was, the more time out of each cycle that power flowed to the car.

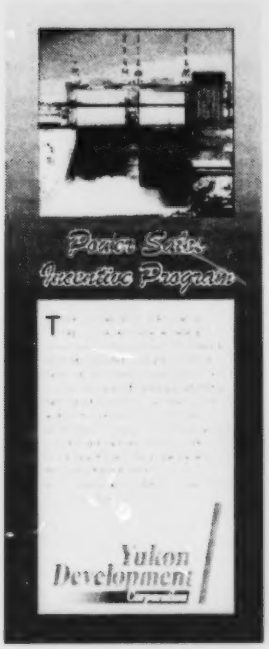
Additional features of the pilot project included a two-hour delay setting as well as a load limit setpoint to control the amount of electricity an individual vehicle could draw. Preliminary results indicated that energy savings ranged from 50% to 84% compared to a full-time plug-in.

A Woodstove Replacement and Education Pilot Project was designed in conjunction with the Yukon Conservation Society to improve residential wood heating efficiency as part of seven wood education national pilot projects supported by Natural Resources Canada. The initiative exchanged old, inefficient stoves in a Whitehorse neighbourhood with new, certified models to reduce air quality problems, improve stove safety and save consumers money.

REDUCING DIESEL GENERATION THROUGH DEMAND SIDE MANAGEMENT

The House Calls Energy Efficiency Program concluded in 2001, benefiting close to 1,500 households in 18 communities, primarily in areas reliant on diesel-generated electricity.

Delivered through the Yukon Conservation Society and financially assisted by Natural Resources Canada's Climate Change Action Fund, participants



received an insulating blanket on their hot water tank and a compact fluorescent light bulb, plus other energy saving products as required. Information was distributed about ways to decrease consumption and the link between energy use and climate change. The program also offered a special seniors' initiative in support of the Yukon government's response to rising heating costs.

The Renewable Power Sales Incentive Program was formally launched in cooperation with Yukon Energy and the Energy Solutions Centre. This program facilitates the use of cost-effective, surplus renewable energy by offering technical services and recoverable financial incentives. All installations must meet the regulatory requirements established by the Yukon Utilities Board for secondary power sales.

The Residential Electricity Management Program continued to be delivered in 2001 by Yukon Housing Corporation through an operating agreement with Yukon Development Corporation. The objective of the program is to reduce winter electricity demand for residential space heating by providing low-interest loans for homeowners to install new systems that use an alternative energy source such as high-efficiency oil or propane furnaces. Since its inception in 1997, the program has assisted almost 270 households.

SHIFTING THE MARKET TO INTEGRATED ENERGY SOLUTIONS

The Energy Solutions Centre officially opened in March 2001 as a joint initiative between Yukon Development Corporation and Natural Resources Canada. The Centre provides technical services and facilitates

integrated efficiency and renewable energy solutions for residential, commercial and institutional clients by partnering with the public and private sectors.

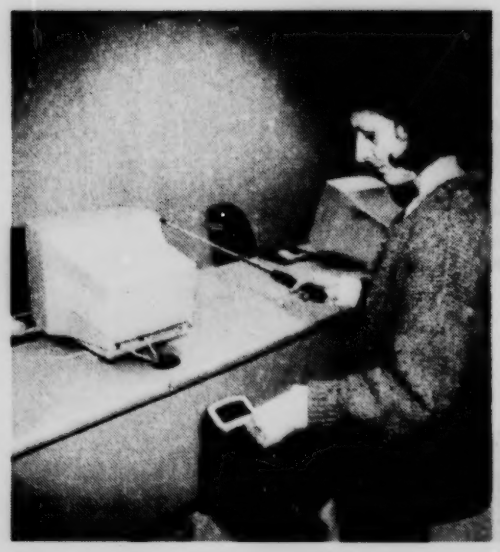
The Centre also holds regular training courses to enhance Yukon energy expertise, tests emerging efficiency and renewable technologies for suitability to the northern environment, and conducts public outreach related to climate change.

In recognition of its mandate, on April 1, 2001, Yukon Development Corporation transferred administration and delivery of the Commercial Energy Management Program (CEMP) from Yukon Housing Corporation to the Energy Solutions Centre. CEMP assists companies and municipalities to reduce energy demand by conducting technical audits and recommending practical, integrated solutions that provide cost-savings based on a sound business case. Participants are provided with financial incentives for equipment and lighting upgrades as well as advice on energy performance contracting.

The Centre also delivers the Commercial Energy Auditor Service, which trains and certifies commercial energy auditors in conjunction with the Canadian Institute for Energy Training.

PARTNERING FOR IMPROVED ENERGY PERFORMANCE

Yukon Development Corporation reached two agreements in 2001 to improve energy performance in the territory. A Letter of Cooperation with Natural Resources Canada signed by Premier Pat Duncan and the

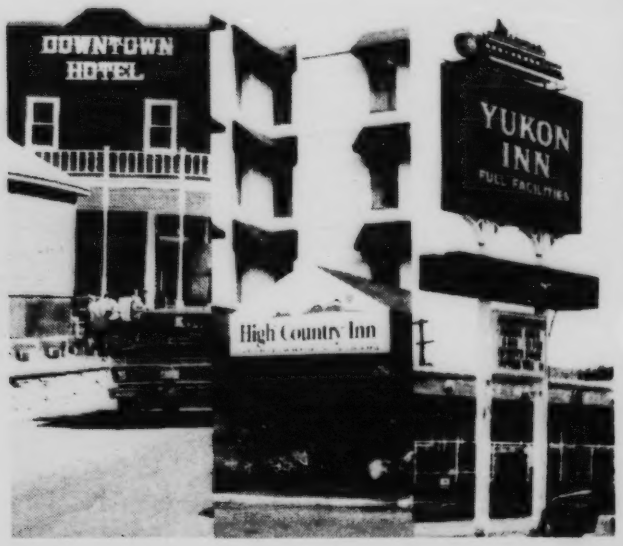


Minister of Natural Resources Canada, Ralph Goodale, enables the coordinated delivery of federal and territorial energy programs through the Energy Solutions Centre. It ensures that information, resources and expertise will be shared and facilitates territorial input to the planning and design of national energy initiatives.

The Tourism Energy Solutions Partnership, signed by a Memorandum of Understanding with the Tourism Industry Association of Yukon, the Yukon Zone of British Columbia and Yukon Hotels' Association, the Hotel Association of Canada, Tourism Yukon, Natural Resources Canada and Yukon Development Corporation, is an action-oriented strategy that targets integrated energy solutions for the tourism and hospitality sector.

Delivered by the Energy Solutions Centre, participants receive comprehensive technical assessments of their facilities and operating systems to identify energy saving opportunities. An energy action business plan is developed that outlines appropriate, cost-effective efficiency and renewable energy solutions along with easy, one-window access to available federal and territorial government energy programs.

In addition, the partnership promotes the Green Leaf Program, an eco-certification initiative from the Hotel Association of Canada, that encourages the tourism industry to adopt environmental practices in their facilities to address waste, energy and water use.



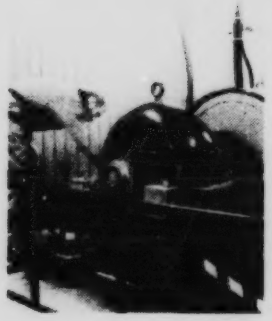
GREEN POWER INITIATIVE

DEVELOPING NEW RENEWABLE SUPPLY OPTIONS AND APPLICATIONS

The Green Power Initiative, established through a $3 million contribution from the territorial government, is to develop and improve the competitiveness of alternative energy to meet new electrical demand and displace existing fossil fuel sources.

In 2001, Yukon Development Corporation took a significant step towards increasing the territory's renewable energy supply by issuing a call for expressions of interest for green power project proposals from interested Yukon power producers pursuant to the Green Power Initiative. It gauged local capacity to establish alternative energy systems, giving preference to off-grid communities that rely on diesel-generated electricity.

The Expression of Interest ended April 15 with eight submissions outlining 36 small-scale hydro, wind-diesel and hydrogen projects. To date, this has triggered technical feasibility studies for small wind turbines that would operate in conjunction with existing diesel generators to serve three communities. One or more small hydro feasibility studies may also proceed over the coming year as a result of this initiative.



The Green Power Initiative further expanded its assessment of alternative energy applications for the local energy market by participating with community partners in two demonstration projects. A solar powered scoreboard was erected at a Whitehorse sports field while solar tubes were installed at a rural swimming pool to heat water. The performance of both technologies will be monitored and assessed by Yukon Development Corporation to determine their suitability for a broader application.

Finally, planning was completed for a small hydro resource program to be launched in 2002.

PROMOTING THE WIND ENERGY SOLUTION

The Community Wind Resource Assessment Program, delivered by Yukon Development Corporation through Yukon Energy, provides incentives and technical assistance for communities and individuals to assess wind energy potential to displace fossil fuel power sources. Five Yukon sites are selected annually for monitoring and, depending on the outcome, may be continued on a multi-year basis.

In 2000-2001, these locations included Marsh Lake, Annie Lake Road near Whitehorse, Henderson Corner outside Dawson City, Blind Creek in Faro and Fox Creek at the south end of Fox Lake. None of the sites was found to have sufficient capacity to justify a stand-alone wind energy installation though two locations held the potential for economical wind generation in conjunction with solar energy.

The 2001-2002 monitoring program is already underway at Carcross Beach, Fish Lake Road near Whitehorse, Lake Laberge, Silver City and Fox Lake with results expected in the fourth quarter of 2002.

INFRASTRUCTURE AND PLANNING

Various capital planning activities were initiated in 2001 as part of Yukon Development Corporation's long-term goal of meeting current and future electricity demand from renewable energy sources.

A computerized database of hydro sites identified since the 1950s was designed and compiled while a renewable energy caucus, consisting of publicly and privately owned utilities and independent power producers, was established to provide input to the Yukon Protected Areas Strategy.

With the financial support of Yukon Development Corporation, Yukon Energy awarded the construction contract for the Mayo-Dawson City transmission system and implemented the project's benefit agreement with the First Nation of Nacho Nyak Dun and the Tr'ondëk Hwëch'in First Nation.

Corridor identification, as well as technical and environmental planning, was initiated for a transmission line from Carmacks to Stewart Crossing to integrate the territory's electrical networks. Though the project will not proceed in the near future, planning must start now to allow sufficient time for the environmental assessment and permitting.

The corporation also re-invested its dividend in long-term financing for Yukon Energy consistent with the requirement to maintain a 60:40 debt to equity relationship with the subsidiary.

ENVIRONMENTAL PERFORMANCE

LEADING BY EXAMPLE

Yukon Development Corporation is dedicated to environmental stewardship in all activities and encourages its subsidiaries and public and private sector partners to demonstrate similar leadership.

The corporation was proud to receive Gold Level Reporter status and the 2001 Leadership Award for Small and Medium-sized Enterprise (SME) for submitting a climate change action plan for the corporation and its two subsidiaries to the Voluntary Challenge and Registry Inc. (VCR Inc.).

The report submitted by Yukon Development Corporation calculated total greenhouse gases for all three companies since 1990, and established clear performance indicators including projected future emissions, target setting, measures to reach these targets and results currently achieved. Between 1990 and 2000, carbon dioxide emissions decreased by 65% or 23,630 tonnes and the companies are dedicated to maintaining this success over the next decade despite a potential load growth of up to 36%.

VCR-MVR Inc. Gold™ Champion Level Reporter

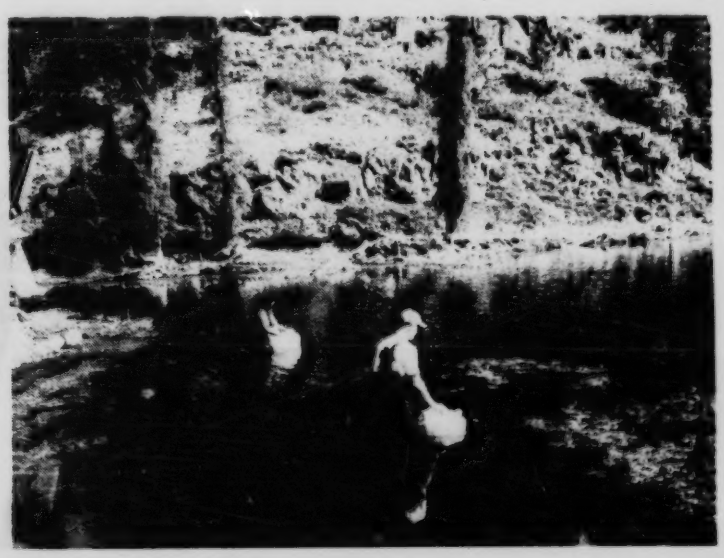
The Gold Level Reporter is the highest designation issued by Voluntary Challenge and Registry Inc. This agency promotes, assesses and recognizes the effectiveness of the voluntary approach to address climate change by managing a registry. The SME 2001 Leadership Award was selected by an independent, multi-stakeholder panel based on VCR Inc. registrants that displayed extraordinary commitment, action and leadership in voluntarily reducing greenhouse gas emissions.

Yukon Development Corporation actively participated in the development of a Yukon Climate Change Action Plan through its membership on the Climate Change Coordinating Committee. This included contributions to a Yukon government inventory of mitigative and adaptive measures being undertaken in the Yukon by the corporation and its subsidiaries. In addition, input was also provided for the first National Climate Change Business Plan and the Yukon government's submission to the Canadian Energy Efficiency Alliance. The latter submission helped the territory receive the highest grade for energy efficiency in the country for the second consecutive year.

Yukon Development Corporation dedicated other resources to the greenhouse gas issue in 2001. The corporation was a sponsor of and active participant in the international Circumpolar Climate Change Conference held in Whitehorse in March and assisted Yukon Energy market emission reduction credits from the Mayo-Dawson City transmission system to prospective domestic buyers.

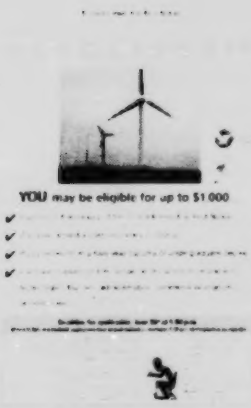
At its corporate offices, together with the Energy Solutions Centre, Yukon Development Corporation implemented recycling and composting programs, and installed a variety of efficient technologies and practices to reduce energy demand. These included lighting timers, energy efficiency appliances and locally manufactured office furniture.

Finally, jointly with Yukon Energy, the corporation signed an agreement with the Department of Environment to support the research, habitat and management of fresh water fish at locations around the territory.



FIRST NATIONS RELATIONS

Yukon Development Corporation continued its efforts to build respectful, constructive and ongoing relationships with First Nation governments and their development corporations to achieve mutual goals. The corporation supported a land-based heritage training assessment involving the Champagne and Aishihik First Nations and other aboriginal governments for work planned on an existing transmission line and new energy corridors.



As a result of the Expression of Interest issued under the Green Power Initiative, discussions to jointly develop potential renewable energy projects began with several First Nations.

Yukon Development Corporation worked closely with Yukon Energy to arrange a strategic investment opportunity for the Nacho Nyak Dun and Tr'ondëk Hwëch'in as part of the benefit agreement for the Mayo-Dawson City transmission line project.

COMMUNITY INVOLVEMENT

Yukon Development Corporation embraces its corporate responsibilities and actively participates in community events. It sponsored the Yukon Business Summit and Circumpolar Climate Change Conference in 2001, presented at several career fairs and trade shows, and was a key contributor to the Yukon Energy Fair and Yukon Science Fair.

Under the Green Power Initiative, Yukon Development Corporation promoted renewable energy through its ongoing support for the experiential science program at the Wood Street Centre. Here, students tested solar panels and an in-stream generator. The in-stream generator

was installed at Mount McIntyre Creek to warm incubated salmon eggs over the winter and to teach students about practical forms of renewable energy. After modifying the unit with a larger propeller to ward off frazzle ice, the in-stream generator has been a complete success with a very low environmental impact.

Beyond these activities, to broaden public awareness about the important role of renewable energy in the territory, the corporation partnered with Yukon Energy to commission publications on wind energy *(The Winds of Change)* and hydro development *(The Power of Water)*.

GOVERNANCE AND ACCOUNTABILITY

In 2001, the board of directors focused on developing a new strategic plan to guide the corporation over the next five years.

The implementation of the governance protocols signed in February 2000 continued. These better delineate the roles and responsibilities of the minister, board and corporate management, as well as the relationship between Yukon Development Corporation and Yukon Energy.

Amendments to the *Yukon Development Corporation Act* to entrench governance and accountability requirements flowing from the protocols were addressed earlier than anticipated. The changes will form part of a corporate governance act developed as part of the Yukon government's renewal process and were to be introduced in the spring 2002 legislative session.

RATE STABILIZATION FUND

The Rate Stabilization Fund (RSF) was created in November 1998 through an Order-in-Council pursuant to the *Yukon Development Corporation Act*. It is funded by a $10 million contribution from the Yukon government and was scheduled to end March 31, 2002.

In October, the government announced an extension of the RSF until March 31, 2005. The current level of subsidy will be continued and managed within a $12 million cap paid by a $3 million grant from the Yukon government, the balance of the existing RSF program and corporation resources.

The RSF subsidizes residential electricity bills to a maximum of nine percent above January 1997 rates for the first 1,000 kilowatt hours per month in the winter. In summer, the subsidy decreases on a sliding scale beginning at 1,000 kilowatt hours until it is eliminated at 1,500 kilowatt hours a month.

General service electricity bills, which include business and municipal consumers, are subsidized for the first 2,000 kilowatt hours per month in winter. In summer, the subsidy gradually declines beginning at 2,000 kilowatt hours and ends at 3,000 kilowatt hours.

In 2001, $3,609,000 was spent on the RSF in the territory. The number of non-government residential customers receiving the subsidy ranged from a low of 11,548 in the second quarter to a high of 12,376 in the fourth quarter. The number of commercial consumers who benefited varied from 1,689 in the second quarter to 2,074 in the fourth quarter while similar figures for municipal facilities were a low of 144 in the second quarter and a high of 209 in the first quarter.

The balance of the Rate Stabilization Fund on December 31, 2001, including investment income, was $2,663,000.

SHAREHOLDER DIRECTION

In 2001, the Government of the Yukon issued directives to the board of directors that directly impacted the business and affairs of Yukon Development Corporation. The following Order-in-Council was given pursuant to paragraph 4(d) of the *Yukon Development Corporation Act*:

- Order-in-Council 2001/147 dated October 17, 2001 to continue the existing subsidy provided by the Rate Stabilization Fund within a $12 million funding cap until March 31, 2005.

The Government of the Yukon also appointed directors to the board of Yukon Development Corporation during 2001 by issuing the following Orders-in-Council pursuant to section 7(2) of the *Yukon Development Corporation Act*:

- Order-in-Council 2001/72 re-appoints Ed Chambers as a director for a term ending May 6, 2004;
- Order-in-Council 2001/135 appoints Lorne Austring as a director for a term ending September 3, 2004;
- Order-in-Council 2001/137 appoints Angus Robertson as Chair for a term ending September 17, 2002; and
- Order-in-Council 2001/159 re-appoints Pat Irvin as a director for a term ending November 20, 2004.

BOARD OF DIRECTORS & STAFF

Yukon Development Corporation

Yukon Development Corporation
P.O. Box 2703 (D-1)
Whitehorse, Yukon Y1A 2C6
Phone: (867) 393-7069
Fax: (867) 393-7071
E-mail: darlene.morgan@gov.yk.ca

DIRECTORS AND STAFF at December 31, 2001

BOARD OF DIRECTORS

Chair
Angus Robertson
(photo missing opposite page)

Directors
Lorne Austring
Fred Blanchard
Ed Chambers
Carl Charlie
Pat Irvin
Duncan Sinclair
Sally Wright

OFFICERS

President and Chief Executive Officer
Duncan Sinclair

Acting Corporate Treasurer
Wendy Fendrick

Corporate Secretary
Rod Snow

Assistant Corporate Secretary
Darlene Morgan

Second Assistant Corporate Secretary
Monica Lauer

Assistant General Manager
Don Flinn

COMMITTEES

Audit

Chair
Pat Irvin

Members
Carl Charlie
Duncan Sinclair

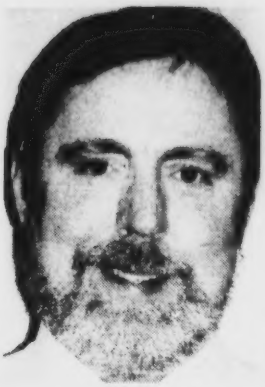
Board orientation

Chair
Sally Wright

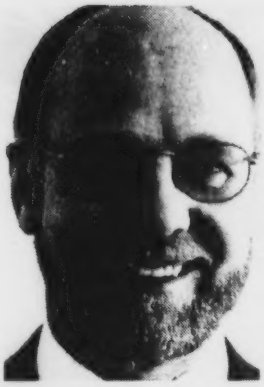
Members
Fred Blanchard
Duncan Sinclair

AUDITOR

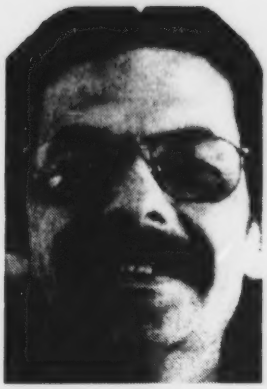
Auditor General of Canada



Angus Robertson, Chair and Director
Mr. Robertson is the Deputy Minister, Department of Economic Development, Government of the Yukon. He was appointed as chair and director in September 2001.



Lorne Austring, Director
Mr. Austring is a Whitehorse lawyer and partner in the law firm of Austring, Fendrick, Fairman & Parkkari where he practices corporate and commercial law. He has been on the board since September 2001 and was appointed chair in May 2002.



Fred Blanchard, Director
Mr. Blanchard is a member of the Little Salmon/Carmacks First Nation and plays an important role in promoting energy efficiency programs within Whitehorse and the rural communities. He has been on the board since August 1993.

Ed Chambers, Director
Mr. Chambers is a member of the Champagne and Aishihik First Nations and vice-chair of the board of directors. He resides in Champagne and was appointed a director in February 1991 at the recommendation of the Council of Yukon First Nations. Ed brings considerable experience to board discussions as its longest serving member and former chair of the audit committee.

Carl Charlie, Director

Mr. Charlie was appointed to the board of directors in October 1999. He is a member and former councillor of the Vuntut Gwitchin First Nation, and has extensive experience in land use planning and a strong interest in assisting First Nation communities achieve greater energy sustainability and independence.

Pat Irvin, Director

Mr. Irvin has been a resident of the Yukon for over 25 years. He is the president of Watsonlakehotels.com, a corporation that operates three full service hotels in Watson Lake. He has been on the board of directors since November 1995 and offers a wealth of experience on business and financial matters. He chairs the audit committee.

Duncan Sinclair, Director

Mr. Sinclair is President and Chief Executive Officer for the corporation. He was also a director (ex officio) on the Yukon Energy board as of December 31.

Sally Wright, Director

Ms. Wright is a self-employed artist with an active interest in energy efficiency and renewable technologies. She has been on the board since September 1997.

AUDITED FINANCIAL STATEMENTS

Yukon Development Corporation

MANAGEMENT REPORT

The consolidated financial statements and all other financial information relating to Yukon Development Corporation contained in this annual report are the responsibility of management. The consolidated financial statements have been prepared in conformity with Canadian generally accepted accounting principles using methods appropriate for the industry in which the Corporation operates. The preparation of financial statements necessarily involves the use of estimates and approximations which have been made using careful judgment. In management's opinion, the consolidated financial statements have been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized in the consolidated financial statements. Financial information presented elsewhere in this annual report is consistent with that in the consolidated financial statements.

Management maintains systems of internal controls designed to provide reasonable assurance that assets are safeguarded and that reliable financial information is available on a timely basis. These systems include formal written policies and procedures, the careful selection and training of qualified personnel, and an organizational structure that provides for the appropriate delegation of authority and segregation of responsibilities.

The financial statements have been examined by an external auditor. The external auditor's responsibility is to express an opinion on whether the consolidated financial statements, in all material respects, fairly present the Corporation's financial position, results of operations and changes in cash flows in accordance with generally accepted accounting principles. In addition, the external auditor reports on whether proper books of account have been kept by the Corporation, the consolidated financial statements are in agreement therewith, and transactions, in all significant respects, are in accordance with the *Financial Administration Act* (Yukon) as applicable, the *Yukon Development Corporation Act* and the bylaws of the Corporation. The Auditor's Report, which follows, outlines the scope of this examination and the auditor's opinion.

The Corporation's Board of Directors, through its Audit and Finance Committee, oversees management's responsibilities for financial reporting. The Audit and Finance Committee meets with management and the independent external auditor to discuss auditing and financial matters, to gain assurance that management is carrying out its responsibilities and to review and approve the consolidated financial statements. The auditor has full and free access to the Audit and Finance Committee, with and without the presence of management.

Duncan Sinclair
President and Chief Executive Officer
May 16, 2002

Mailing Address: Box 2703 (D-1), Whitehorse, Y.T. Y1A 2C6
Telephone: (867) 393-7069 Fax: (867) 393-7071

AUDITOR GENERAL OF CANADA VÉRIFICATEUR GÉNÉRAL DU CANADA

AUDITOR'S REPORT

The Honourable Scott Kent
Minister Responsible for the Yukon Development Corporation

I have audited the consolidated balance sheet of the Yukon Development Corporation as at December 31, 2001 and the consolidated statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2001 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Yukon Development Corporation Act,* I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, proper books of account have been kept by the Corporation and by its wholly owned subsidiaries and the consolidated financial statements are in agreement therewith and the transactions of the Corporation and of its wholly owned subsidiaries that have come to my notice during my audit of the consolidated financial statements have, in all significant respects, been in accordance with the *Financial Administration Act* and regulations, the *Yukon Development Corporation Act* and the bylaws of the Corporation.

Ronald C. Thompson, CA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
May 16, 2002

Yukon Development Corporation
CONSOLIDATED BALANCE SHEET

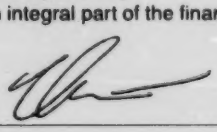
As at December 31, 2001 (in thousands of dollars)

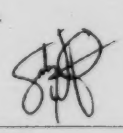
	2001	2000
ASSETS		
Current assets		
Cash and cash equivalents (note 3)	$ 25,867	$ 24,234
Accounts receivable (note 4)	7,006	11,704
Inventories	2,272	2,155
Prepaid expenses	452	379
Current portion of investment (note 5)	254	224
	35,851	**38,696**
Long-term receivables		
Mortgages receivable	39	137
	39	**137**
Capital assets (note 7)	**131,369**	**124,960**
Deferred charges (note 8)	**4,777**	**4,168**
Investments (note 5)	**4,082**	**4,336**
Reserve for uninsured losses (note 9)	**291**	**316**
Funds held in trust (note 6)	**1,405**	**–**
Rate Stabilization Fund (note 10)	**2,663**	**6,054**
Diesel Contingency Fund (note 11)	**682**	**(61)**
	$ 181,159	**$ 178,606**
LIABILITIES		
Current liabilities		
Accounts payable	$ 2,881	$ 2,460
Current portion of long-term debt (note 12)	972	910
Interest payable	15	15
Regulatory liabilities (note 13)	1,804	2,086
	5,672	**5,471**
Long-term debt (note 12)	**43,416**	**44,323**
Deferred revenue (note 14)	**15,371**	**15,428**
Reserve for future removal and site restoration costs	**5,041**	**4,644**
Rate Stabilization Fund (note 10)	**2,663**	**6,054**
Diesel Contingency Fund (note 11)	**682**	**(61)**
	$ 72,845	**$ 75,859**
EQUITY		
Contributed capital	41,501	41,501
Retained earnings	66,813	61,246
	108,314	**102,747**
	$ 181,159	**$ 178,606**

Contingencies and commitments (Note 17)

The accompanying notes are an integral part of the financial statements.

Approved by the Board:





Chair

Director

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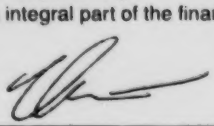
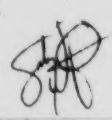


Chair



Director

Yukon Development Corporation
CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

For the year ended December 31, 2001 (in thousands of dollars)

	2001	2000
Revenue		
Sales of power	$ 22,242	$ 22,386
Interest income	1,141	1,333
Other	571	1,159
Finance Income	559	586
Contributions - Canada	289	–
Contributions - Yukon	141	180
	24,943	**25,644**
Operating expenses		
Administration	5,785	8,928
Operations and maintenance	5,208	5,413
Amortization of capital assets	5,194	4,738
Amortization of deferred charges	452	397
	16,639	**19,476**
Income from operations	**8,304**	**6,168**
Other expenses		
Interest on long-term debt	1,765	1,808
Program expenses (note 15)	922	352
Provision for uninsured losses	50	50
	2,737	**2,210**
Net income	**5,567**	**3,958**
Retained earnings, beginning of year	61,246	57,288
Retained earnings, end of year	**$ 66,813**	**$ 61,246**

The accompanying notes are an integral part of the financial statements.

Yukon Development Corporation
CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2001 (in thousands of dollars)

	2001	2000
Cash provided by (used in)		
Operating activities		
Net income	**$ 5,567**	**$ 3,958**
Items not resulting in a cash payment		
Amortization of capital assets	5,194	4,738
Amortization of deferred charges	452	397
Increase in reserve for future removal & site restoration	397	575
	6,043	**5,710**
Changes in non-cash components of working capital		
Decrease (increase) in accounts receivable	3,715	(864)
Increase in inventories	(118)	(1,343)
Increase in prepaid expenses	(73)	(32)
Increase in funds held in trust	(1,405)	–
Increase (decrease) in accounts payable	420	(529)
Decrease in interest payable	–	(1)
(Decrease) increase in deferred revenue	(57)	3,081
Increase (decrease) in regulatory liabilities	(282)	1,621
	2,200	**1,933**
	13,810	**11,601**
Investing activities		
Additions to capital assets	(11,536)	(9,656)
Additions in deferred charges	(1,061)	(854)
Increase in reserve for uninsured losses	25	430
Principal payments received on investments	224	198
	(12,348)	**(9,882)**
Financing activities		
Repayments of long-term debt	(910)	(787)
Decrease in long-term receivables	1,081	4,070
	171	**3,283**
Net increase in cash during the year	**1,633**	**5,002**
Cash beginning of year	**24,234**	**19,232**
Cash end of year	**$ 25,867**	**$ 24,234**
Supplementary disclosure:		
Interest paid in the year	$ 1,764	$ 1,821

The accompanying notes are an integral part of the financial statements.

Yukon Development Corporation
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Yukon Development Corporation
NOTES TO FINANCIAL STATEMENTS

December 31, 2001 (tabular amounts in thousands of dollars)

1. AUTHORITY, OBJECTIVES AND OPERATIONS

Yukon Development Corporation (the Corporation) was originally established under the *Yukon Development Corporation Act* to participate with the private sector in the economic development of the Yukon, to make strategic investments to the benefit of the territory and to acquire and operate the assets of Northern Canada Power Commission (NCPC) in the Yukon.

In 1993, the Corporation's mandate was changed to restrict its new initiatives to energy-related activities designed to promote the economic development of the Yukon.

The Corporation's wholly owned subsidiaries, Yukon Energy Corporation and Energy Solutions Centre Inc., were incorporated under the Yukon *Business Corporations Act*. Yukon Energy Corporation generates, transmits, distributes and sells electrical energy in the Yukon and is regulated by the Yukon Utilities Board. The mandate of Energy Solutions Centre Inc. is to engage Yukoners in the challenge and potential of energy efficiency and green power as solutions to climate change by mobilizing individuals, businesses, communities and First Nations to implement projects that will reduce greenhouse gas emissions in the Yukon.

Yukon Energy Corporation and Energy Solutions Centre Inc. are exempt from the *Financial Administration Act* (Yukon).

2. SIGNIFICANT ACCOUNTING POLICIES

Financial statement presentation

The consolidated financial statements of Yukon Development Corporation have been prepared by management and conform to Canadian generally accepted accounting principles. The consolidated financial statements include the accounts of Yukon Development Corporation and its wholly owned subsidiaries, Energy Solutions Centre Inc. and Yukon Energy Corporation and take into account generally accepted accounting methods and practices of regulatory bodies. All significant inter-company transactions and balances have been eliminated on consolidation. The regulatory accounting practices adopted by Yukon Energy Corporation may differ from the accounting practices otherwise applied in unregulated enterprises. In particular, the timing of Yukon Energy Corporation's recognition of certain assets, liabilities, revenues and expenses as a result of regulation may differ from that otherwise expected using generally accepted accounting principles. A description of significant accounting policies follows.

Water regulation

The Yukon Territory Water Board decides if and for how long Yukon Energy Corporation will have a water license for the purposes of operating dams for hydro generation. The licenses will also indicate terms and conditions for the operation of dams.

Rate regulation

The Corporation's subsidiary, Yukon Energy Corporation, is regulated by the Yukon Territory Water Board pursuant to the *Yukon Waters Act* (Canada) and the Yukon Utilities Board pursuant to the *Public Utilities Act* (Yukon). The regulatory process begins when Yukon Energy Corporation makes a General Rate Application for its proposed electricity rate changes over the next one or two forecast years. The Yukon

Yukon Development Corporation
NOTES TO FINANCIAL STATEMENTS
December 31, 2001 (tabular amounts in thousands of dollars)

Utilities Board (YUB) must ensure that its decision, which fixes electricity rates, complies with all relevant legislation including the Public Utilities Act and directives issued by the Yukon Government through Orders-In-Council that specify how the interests of the customer and the utilities are to be balanced.

The YUB follows a two-stage decision process. In the first stage, the total costs that the utility will incur by making electricity available to its customers over the immediate future are approved. The approval of these costs determines the total revenues the utility is allowed to collect from its customers. It is the responsibility of the YUB to examine the legitimacy of three classes of costs:

- the costs to the utility to run its operations and maintain its equipment (personnel and materials);
- the cost associated with the amortization of all capital equipment; and
- the return on rate base (the costs related to borrowing that portion of rate base which is financed with debt, and the costs to provide a reasonable rate of return on that portion of rate base which is financed with equity).

In the second stage, the YUB approves how the revenue will be raised. This stage essentially determines the electricity rates for the various customer classes in the Yukon: residential, government, commercial and industrial. This process is guided mainly by a cost of service study which allocates utility costs to the various customer classes on the basis of appropriate costing principles. The determination of rates is also affected by Orders-In-Council issued by the Yukon Cabinet, which give specific government direction to the Board.

Normally, Yukon Energy Corporation applies for rates in advance of the applicable years. A hearing takes place and rates are approved as final as a result of the hearing. Interim hearings and interim rates may be used to deal with unforeseen circumstances.

Inventories

Inventories which consist of material, supplies and diesel fuel are recorded at the lower of average cost or replacement value.

Capital assets

Capital assets are stated at cost which includes materials, direct and indirect labour, an appropriate allocation of administrative overhead and finance charges capitalized during construction, less accumulated amortization. Amortization is based on the straight-line method over the estimated economic life of the assets as follows:

Generation	
Hydro-electric plants	40 to 65 years
Diesel plants	15 to 25 years
Transmission	25 to 35 years
Distribution	20 to 30 years
Buildings	20 to 30 years
Financial Information System	5 to 10 years
Transportation	13 to 14 years
Other equipment	5 to 15 years

Yukon Development Corporation
NOTES TO FINANCIAL STATEMENTS
December 31, 2001 (tabular amounts in thousands of dollars)

Yukon Energy Corporation capitalizes development studies and an allowance for funds used during construction (AFUDC) at a rate approved by the Yukon Utilities Board for debt and equity funds.

Certain additions are made with the assistance of cash contributions where the estimated revenue is less than the cost of providing service or where special equipment is needed to meet customers' specific requirements. These contributions are amortized to income on the same basis as and offset the amortization charge of the assets to which they relate. Capital assets are disclosed net of unamortized contributions. Upon retirement or disposal, any gain or loss is charged to income in the current year for assets depreciated on an individual basis, or charged to accumulated depreciation for assets depreciated on a pooled basis.

Deferred charges

Deferred charges are recorded at cost less accumulated amortization.

All demand side management expenditures related to administration expenses and information programs are expensed as incurred, while costs related to specific incentive programs are deferred and amortized to earnings on a straight-line basis over five years.

Planning and study costs related to research projects and operations are expensed as incurred. Costs related to potential capital development projects which are abandoned are amortized to earnings on a straight-line basis over five years starting in the year that the project is abandoned.

Costs related to water license renewals are deferred and amortized to earnings on a straight-line basis over the term of the existing license plus the expected term of the renewed license, which is generally a long term arrangement of 25 years.

Regulatory hearing costs are deferred and amortized to earnings on a straight-line basis over the period to which the hearing relates.

General equipment overhaul expenditures in excess of $250,000 are deferred and amortized to earnings on a straight-line basis over five years.

Other deferred charges are amortized to earnings on a straight-line basis over various terms approved by the Yukon Utilities Board.

Investments

The Corporation's investments are recorded at the lower of cost or net realizable value.

Reserve for uninsured losses

Yukon Energy Corporation maintains a reserve for uninsured losses. An appropriation to the reserve of $50,000 is made annually as a charge to expenses. Uninsured losses are charged directly against the reserve.

Yukon Development Corporation
NOTES TO FINANCIAL STATEMENTS
December 31, 2001 (tabular amounts in thousands of dollars)

Reserve for future removal and site restoration cost

The reserve is calculated based on the estimated cost of demolishing, dismantling, tearing down, or otherwise disposing of the asset, net of expected recoveries. These estimated costs are being provided for over the estimated useful life of the asset on a straight-line basis.

Revenue recognition

Revenue from the sale of power is recorded when electricity is delivered.

Contribution - Canada

Contributions are received from the Government of Canada as part of a contribution agreement between the Corporation and Natural Resources Canada. The purpose of the program is to stimulate energy efficiency and renewable energy technologies. The program is delivered by the subsidiary, Energy Solutions Centre Inc. and revenue is recognized on an accrual basis, when services are performed.

Contribution - Yukon

Contributions were received in 1999 as part of the Yukon Government's commitment to sustainable energy development. These contributions are recognized as income when the eligible expenses are incurred.

Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. This mainly affects revenue, accounts receivable, the reserve for future removal and site restoration costs and other long-term receivables. Actual results could differ from these estimates.

3. CASH AND CASH EQUIVALENTS

	2001	2000
Bank balance	$ 11,306	$ 10,172
Short-term investments	14,561	14,062
	$ 25,867	**$ 24,234**

Short-term investments are monies invested in a pooled money market fund. The fixed-term securities held in the fund have an average maturity less than 90 days. Earnings are distributed monthly on a pro-rata share of the total fund. Annual return on investment for 2001 was 2.64% (2000 — 6.03%).

Yukon Energy Corporation also has, if needed, an operating demand line of credit with its banker that allows the Corporation to borrow up to $10,000,000 at bank prime. The overdraft facility is guaranteed by the Yukon Government.

Yukon Development Corporation
NOTES TO FINANCIAL STATEMENTS
December 31, 2001 (tabular amounts in thousands of dollars)

4. ACCOUNTS RECEIVABLE

	2001	2000
Fire insurance claim	$ 2,235	$ 4,787
Rate adjustment receivable	1,809	2,103
Retail energy sales	1,231	1,940
Wholesale energy sales	1,144	1,664
Anvil Range Mine revenue shortfalls	–	983
Other	587	227
	$ 7,006	**$ 11,704**

Accounts receivable includes $2,446,000 (2000 — $2,203,000) due from the Yukon Electrical Company Limited. Yukon Energy Corporation's sales to the Yukon Electrical Company Limited were $14,981,000 (2000 — $15,020,000) but, due to the wholesale nature of the sales, Yukon Energy Corporation is not economically dependent on it.

5. INVESTMENTS

The Corporation's investments are summarized as follows:

	2001	2000
Direct financing lease	$ 4,336	$ 4,560
Less: current portion	254	224
	$ 4,082	**$ 4,336**

In 1990, the Corporation acquired the building known as Old Yukon College from the Yukon Government for a nominal fee. The building was renovated and is being leased back to the Government for a period of 20 years. At the end of the lease term (in 2011) the Government may purchase the building from the Corporation for a nominal fee. Interest from the lease is recognized as finance income.

6. FUNDS HELD IN TRUST

	2001	2000
Construction contract holdbacks	$ 789	$ –
Energy infrastructure investment	616	–
	$ 1,405	**$ –**

Construction contract holdbacks represent holdbacks from payments made to the general contractor on the Mayo to Dawson Transmission Line Project. These will be held by Yukon Energy Corporation pending satisfactory completion of the project, at which time the monies will be released.

Yukon Development Corporation
NOTES TO FINANCIAL STATEMENTS
December 31, 2001 (tabular amounts in thousands of dollars)

Energy infrastructure investment represents monies held by Yukon Development Corporation on behalf of a Yukon First Nation for investment in energy infrastructure. The ultimate use of these funds is subject to the finalization of necessary investment agreements.

An offsetting liability is recorded in accounts payable and is equal to the balance of Funds held in trust.

7. CAPITAL ASSETS

	Cost	Accumulated amortization	2001 Net book value	2000 Net book value
Hydro-electric and diesel plants	$ 124,463	$ 32,621	$ 91,842	$ 91,650
Transmission	19,418	6,353	13,065	13,010
Distribution	10,525	3,403	7,122	6,919
Buildings and other equipment	12,038	3,198	8,840	8,277
Financial information system	1,305	354	951	1,153
Transportation	1,206	187	1,019	734
Land	110	–	110	110
Construction-in-progress	10,522	–	10,522	4,782
	179,587	**46,116**	**133,471**	**126,635**
Less: contributions for plant extensions	2,707	605	2,102	1,675
	$ 176,880	**$ 45,511**	**$ 131,369**	**$ 124,960**

The above amounts exclude the costs of assets which were damaged and destroyed in the October 30, 1997 fire at the Whitehorse Rapids Generating Facility. The costs of the assets which were used to reconstruct the facility equalled $13,395,000 and are included in the capital asset costs above. As an offset, an amount equal to $11,604,000 representing insurance proceeds received to cover the cost of reconstruction is accounted for as a deferred revenue (see note 14). The difference, equal to $1,791,000 (2000 — $1,791,000), represents the value of betterments which improved the facility beyond the value replaced by the insurance proceeds.

8. DEFERRED CHARGES

	Cost	Accumulated amortization	2001 Net book value	2000 Net book value
Relicensing	$ 4,753	$ 806	$ 3,947	$ 3,438
Feasibility studies	528	237	291	238
Downsizing costs	301	29	272	–
Generating equipment overhauls	834	695	139	308
Dam safety review	91	36	55	–
Deferred diesel fuel price adjustment	73	–	73	111
Other	–	–	–	73
	$ 6,580	**$ 1,803**	**$ 4,777**	**$ 4,168**

Yukon Development Corporation
NOTES TO FINANCIAL STATEMENTS
December 31, 2001 (tabular amounts in thousands of dollars)

Deferred charges have been deferred and amortized in accordance with decisions of the Yukon Utilities Board.

Yukon Energy Corporation is authorized by Order-In-Council 1995/90 to adjust its rates to reflect fluctuations in the price of diesel fuel without the requirement for specific application to and approval of the Yukon Utilities Board. Fluctuations in diesel fuel expense are deferred and recovered or refunded over designated future periods prescribed by the YUB through revised rates charged to customers.

9. RESERVE FOR UNINSURED LOSSES

	2001	2000
Opening balance	$ 316	$ 746
Provision	(50)	(50)
Adjustment	–	(503)
Losses incurred		
Forest fire	25	–
Wind storm	–	84
Whitehorse Rapids Generation interruption	–	36
Asset replacement	–	3
Closing balance	$ 291	$ 316

Yukon Energy Corporation's target balance for the reserve for uninsured losses is based on Yukon Energy Corporation's past experience. Yukon Energy Corporation will be applying to the Yukon Utilities Board for approval to increase the reserve.

As a result of the 1997 fire at the Whitehorse Rapids Generation facilities, approximately $503,000 was charged to the reserve during 1997 and 1998 ($100,000 for the deductible under Yukon Energy Corporation's insurance policy and $403,000 for fire-related diesel generation not specifically covered by the insurance policy). Given that Yukon Energy Corporation was able to negotiate a "gain on insurance proceeds" under its insurance policy, the reserve was reimbursed in 2000 for these fire-related costs. However, all adjustments to the reserve are subject to the approval of the Yukon Utilities Board which Yukon Energy Corporation has requested in its report to the Board on the impacts from the fire filed on April 26, 2002.

10. RATE STABILIZATION FUND

The ten million dollar Rate Stabilization Fund was created in 1999 by the Yukon Government with a mandate to support stable and affordable electrical rates to March 31, 2002. The goal of the Rate Stabilization Fund is to protect all non-government residential, general service (commercial) and municipal rate payers by minimizing the impact of rate increases over this period. The Yukon Government has announced a further twelve million dollars will be added to the fund, extending the life of this program to 2005 (see commitment note 17b)).

Yukon Development Corporation
NOTES TO FINANCIAL STATEMENTS
December 31, 2001 (tabular amounts in thousands of dollars)

	2001	2000
Opening balance	$ 6,054	$ 8,595
Payments	(3,609)	(2,954)
Interest	218	413
Closing balance	**$ 2,663**	**$ 6,054**

11. DIESEL CONTINGENCY FUND

The Diesel Contingency Fund was established with Board Order 1996-6 by the Yukon Utilities Board. The Fund is administered by Yukon Energy Corporation on behalf of the Yukon Utilities Board, and as such is recorded as a trust asset and a trust liability.

	2001	2000
Opening balance	$ (61)	$ (57)
Whitehorse Rapids Generating Facility fire adjustment	744	–
Interest	(1)	(4)
Closing balance	**$ 682**	**$ (61)**

The Whitehorse Rapids Generating Facility fire adjustment is the Corporation's calculation of the impact of the October 1997 fire to the Diesel Contingency Fund in 1999. In the April 26, 2002 filing to the Yukon Utilities Board on the impact of the fire, the Corporation has requested approval of this adjustment to the Diesel Contingency Fund.

12. LONG-TERM DEBT

The Corporation's long-term debt is summarized as follows:

	2001	2000
Government of Canada		
$40,000,000 flexible term note bearing interest at 7% repayable in annual installments of $1,000,000 interest and principal, with the balance due January 1, 2028	$ 29,302	$ 29,546
Great West Life		
$5,750,000 mortgage bearing interest at 11.5%, repayable in monthly installments of $60,000 interest and principal with the final payment due July 2011	4,332	4,557
TD Canada Trust		
$12,400,000 term note bearing interest at 7.94% payable in monthly installments of $102,000 interest and principal, with the balance of $67,000 due October 31, 2016. The note is guaranteed by the Yukon Government.	10,754	11,130
	44,388	**45,233**
Less: current portion	972	910
	$ 43,416	**$ 44,323**

Yukon Development Corporation
NOTES TO FINANCIAL STATEMENTS
December 31, 2001 (tabular amounts in thousands of dollars)

Government of Canada note

The proceeds of the Government of Canada flexible term note were part of the consideration used in 1987 to acquire the assets of Northern Canada Power Commission. The note is collateralized by a mortgage against the acquired assets.

The terms of the flexible term note provide for payments of principal and interest to be deferred and abated respectively, if power sales on the Whitehorse-Aishihik-Faro electrical power distribution system are less than specified amounts.

Mortgage payable

The mortgage is secured by land and buildings described in note 7.

Long-term debt repayment

Scheduled repayments for all long-term debt are as follows:

2002	$ 972
2003	1,043
2004	1,117
2005	1,108
2006	1,281
Thereafter	38,867
	$ 44,388

Fair value

Fair value of $46,945,000 (2000 — $43,579,000) for all long-term debt was estimated using discounted cash-flow analysis based on an estimate of the Corporation's current borrowing rate for similar borrowing arrangements.

13. REGULATORY LIABILITIES

	2001	2000
Insurance proceeds held on behalf of ratepayers	$ 744	$ 1,488
Anvil Range Mine dewater revenue	1,060	598
	$ 1,804	**$ 2,086**

The Insurance proceeds held on behalf of ratepayers amount represents the residual balance of insurance proceeds after allocation against all known fire-related reconstruction and operation and maintenance costs. The Corporation is required to use the balance of the insurance proceeds to the benefit of ratepayers. The allocation of this amount will be the subject of a decision of the Yukon Utilities Board. On April 26, 2002, in accordance with Board direction, Yukon Energy Corporation filed its report to the Yukon Utilities Board related to the impacts of fire. As part of this report, Yukon Energy Corporation has reported on potential impact to the Diesel Contingency Fund (see note 11). This may affect the ultimate allocation of insurance proceeds.

Yukon Development Corporation
NOTES TO FINANCIAL STATEMENTS
December 31, 2001 (tabular amounts in thousands of dollars)

Anvil Range Mine dewater revenue derives from Rate Schedule 34 customers, of which the Anvil Range Mine represents the only customer in the class. As directed by the Yukon Utilities Board in Board Order 1998-5, the Corporation is deferring revenues collected from this rate class until application to the benefit of customers is directed by the YUB.

14. DEFERRED REVENUES

	2001	2000
Deferred gain on fire insurance proceeds — capital assets (net of amortization and adjustments $2,698,000 (2000 — $2,550,000))	$ 8,906	$ 9,054
Sustainable energy development funds	6,465	6,374
	$ 15,371	$ 15,428

The deferred gain on fire insurance proceeds-capital assets represents the gain resulting from insurance proceeds received in relation to the reconstruction of facilities ($11,604,000; see notes 7 and 13) in excess of net book value of assets destroyed by fire. The gain is being amortized to income at the same rate that the replacement assets are being amortized, as approved by the Yukon Utilities Board Order 2000-3 (see note 7). On April 26, 2002, in accordance with Board direction, Yukon Energy Corporation filed its report with the Yukon Utilities Board on related impacts of the fire.

The Yukon Government provided $6,000,000 towards sustainable energy for the Yukon people. Two 10-year programs were established totalling $4,000,000 for green power and energy conservation and efficiency initiatives. Two million dollars was provided for a wind turbine that was built in 2000. Interest on these amounts is also recorded as deferred revenue.

15. OTHER EXPENSES

	2001	2000
Energy market transformation	$ 436	$ 176
Energy sector development	335	166
Corporate leadership	87	–
First Nations, community and environment initiatives	64	10
	$ 922	$ 352

16. PENSION COSTS AND OBLIGATIONS

Yukon Energy Corporation has a defined benefit pension plan which provides for pensions based on length of service and final average earnings. The cost of pension benefits is determined using the projected benefits method, prorated on service, and reflects management's best estimates of investment returns, wage and salary increases, and age at retirement. Adjustments resulting from the plan enhancements, experience gains and losses, and changes in assumptions are amortized over the estimated average remaining service life of employees. Pension costs include the current cost of service and amortization of past service benefits and plan enhancements, and experience gains and losses. Amortization is on a straight-line basis over the expected average remaining service life of pension plan members, which is currently 18 years.

Yukon Development Corporation
NOTES TO FINANCIAL STATEMENTS
December 31, 2001 (tabular amounts in thousands of dollars)

Yukon Energy Corporation has contracted with external organizations to provide services of trustee, administrator, and investment manager for the pension plan.

An actuarial valuation for funding purposes was performed as of January 1, 2001 by the consulting actuarial firm Aon Consulting Inc. The results of the January 1, 2001 valuation have been projected to December 31, 2001 in accordance with generally accepted actuarial standards. The actuarial valuation includes services rendered by members under the Yukon Energy Corporation Employees Pension Plan from January 1, 1998 to December 31, 2001 and service credits in respect of pre-1998 service transferred to the Yukon Energy Corporation Employees Pension Plan from the Canadian Utilities Employees Pension Plan under the Acknowledgement and Agreement between Yukon Energy Corporation and Yukon Electrical Company Ltd., dated February 5, 1999.

The fair value of plan assets is based on market values as reported by Royal Trust as at December 31, 2001.

The following table sets out the assumptions and pension amounts as at December 31, 2001. Yukon Energy Corporation's employees had the option to belong to the Corporation's defined benefit pension plan or a Registered Retirement Savings Plan (RRSP). Employees joining Yukon Energy Corporation after January 1, 2002 can only join the RRSP. As at December 31, 2001 the Corporation's defined pension plan had 41 members, and the RRSP had 12 members.

Pension benefits are based on:

- years of pensionable service,
- the average annual earnings during any 5 consecutive years of pensionable service where earnings are the highest, and
- the average of the years maximum pensionable earnings (Canada Pension Plan) for the same 5 year period.

Annual cost of living increases to a maximum of 3.00% are provided to pensioners. Yukon Energy Corporation contributes amounts as prescribed by an independent actuary.

Employees make basic and indexed contributions to the plan as follows:

- 3.5% of earnings up to the year's maximum pensionable earnings
- 5.0% of earnings in excess of year's maximum pensionable earnings

to a maximum of $2,500 per year.

Information about Yukon Energy Corporation's defined benefit plan as at December 31, in aggregate, is as follows:

Yukon Development Corporation
NOTES TO FINANCIAL STATEMENTS
December 31, 2001 (tabular amounts in thousands of dollars)

	2001	2000
Discount rate	6.50%	7.00%
Expected long-term rate of return on plan assets	7.00%	7.00%
Assumed rate of salary escalation	3.75%	3.75%
Expected average remaining service life of employees	18 years	18 years
Benefit obligation determined by actuarial valuation	$ 4,862	$ 4,397
Fair value of plan assets	4,183	4,262
Plan deficit	(679)	(135)
Accrued benefit liability	(95)	(35)
Pension expense	268	202
Employer contributions	208	201
Employee contributions	79	87
Benefits paid	(206)	(8)

The Accrued benefit liability has been recorded on Yukon Energy Corporation's books of account and is included in accounts payable on the balance sheet at December 31, 2001.

17. CONTINGENCIES AND COMMITMENTS

a) Mayo to Dawson transmission line contract

During 2001, Yukon Energy Corporation entered into a contract for the construction of a transmission line from the Mayo hydro generation plant to the Dawson distribution system. The total cost of the contract is $22 million payable over the course of construction which is estimated to be 19 months. The cost of the contract will be financed via a combination of debt and grants from Yukon Development Corporation and a portion will be financed by internally generated funds. As of December 31, 2001, the Yukon Energy Corporation has spent $5,458,000 toward the completion of this contract. The total cost of the project will be reviewed by the Yukon Utilities Board as part of Yukon Energy Corporation's next rate application.

b) Rate Stabilization Fund

On October 17, 2001, the Yukon Government announced the continuation of the Rate Stabilization Fund through a $12 million investment beginning in 2002. This investment is expected to sustain the Fund until 2005. Yukon Development Corporation expects to invest up to $7.8 million of internally generated funds before April 1, 2004.

c) Regulatory hearing funding

The Yukon Government issued OIC 2002/75 on March 27 2002, directing Yukon Development Corporation to pay all costs incurred by the Yukon Utilities Board to conduct a utility franchise application review process with respect to a proposed gas distribution system within the City of Whitehorse. The amount of costs Yukon Development Corporation will ultimately pay is not determinable at this time.

Yukon Development Corporation
NOTES TO FINANCIAL STATEMENTS
December 31, 2001 (tabular amounts in thousands of dollars)

d) Compensation arising from water re-licensing activities

Yukon Energy Corporation is pursuing renewal of the water license for the Aishihik Hydro Generation Facility for the fourth quarter of 2002. The decision of the Yukon Water Board, which has jurisdiction in this matter, will likely include compensation to local water users affected by the operation of the facility as defined under the *Yukon Waters Act*. The Yukon Water Board has not rendered a decision to date. As such, the amount owing by Yukon Energy Corporation is not determinable at this time.

18. ENVIRONMENTAL LIABILITIES

The Corporation's activities are subject to various federal and territorial laws and regulations governing the protection of the environment or to minimize any adverse impact thereon. The Corporation conducts its operations so as to protect public health and the environment and believes its operations are materially in compliance with all applicable laws and regulations. Liabilities will be recorded when the occurrence of an environmental expenditure, related to present or past activities of the Corporation, is considered probable and the costs can be reasonably estimated. To date, no such specific liabilities have been recorded in the Corporation's accounts.

19. COMPARATIVE FIGURES

Certain 2000 figures, which are presented for comparative purposes, have been restated to conform with the current year's presentation.

20. NON-CONSOLIDATED FINANCIAL INFORMATION

The nature and size of operations of the corporation and its subsidiaries, Yukon Energy Corporation and Energy Solutions Centre Inc., differ substantially. Audited financial statements of Yukon Energy Corporation and Energy Solutions Centre Inc. for the year ended December 31, 2001 are also prepared and included in Yukon Development Corporation's annual report. Certain non-consolidated unaudited financial information of the Parent corporation is provided in the corporation's annual report for interested parties.

Yukon Development Corporation
NON-CONSOLIDATED BALANCE SHEET (unaudited)

Schedule 1

As at December 31, 2001 (in thousands of dollars)

	2001	2000
ASSETS		
Current assets		
Cash and short-term investments	$ 17,769	$ 19,414
Accounts receivable	358	106
Prepaid expenses	11	–
Current portion of investment	254	224
	18,392	**19,744**
Trust assets		
Rate Stabilization Fund	2,663	6,054
First Nations fund	616	–
Investments		
Equity investments	39,000	39,000
Loans and advances	37,145	34,949
Direct financing lease	4,082	4,336
Capital assets	**1,100**	**1,229**
Deferred capital funding	**7,567**	**4,762**
	$ 110,565	**$ 110,074**
LIABILITIES		
Current liabilities		
Accounts payable	$ 66	$ 388
Interest payable	15	15
Due to Yukon Energy Corporation	734	1,429
Current portion of long-term debt	249	223
	1,064	**2,055**
Deferred revenue	**6,465**	**6,374**
Trust liabilities		
Rate Stabilization Fund	2,663	6,054
First Nations fund	616	–
Long-term debt	**4,084**	**4,333**
	$ 14,892	**$ 18,816**
EQUITY		
Contributed capital	41,501	41,501
Retained earnings	54,172	49,757
	95,673	**91,258**
	$ 110,565	**$ 110,074**

Yukon Development Corporation
NON-CONSOLIDATED BALANCE SHEET (unaudited)

Schedule 1

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	$ 110,565	**$ 110,074**

Yukon Development Corporation
NON-CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS (unaudited)

Schedule 2

For the year ended December 31, 2001 (in thousands of dollars)

	2001	2000
Revenue		
Interest income	$ 3,778	$ 3,775
Dividend income	2,196	797
Finance income	559	586
Contribution - Canada	288	–
Contribution - Yukon	141	–
Other income	228	320
	7,190	**5,478**
Operating expenses		
Administration	635	531
Amortization - capital assets	212	142
Amortization - deferred capital funding	176	39
	1,023	**712**
Other expenses		
Energy market transformation	899	176
Interest on long-term debt	501	523
Energy sector development	212	166
Corporate leadership	87	–
First Nations, community and environment initiatives	53	10
	1,752	**875**
Net income	**4,415**	**3,891**
Retained earnings, beginning of year	**49,757**	**45,866**
Retained earnings, end of year	**$ 54,172**	**$ 49,757**

Yukon Development Corporation
NON-CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS (unaudited)

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	1,752	**875**
Net income	**4,415**	**3,891**
Retained earnings, beginning of year	**49,757**	**45,866**
Retained earnings, end of year	**$ 54,172**	**$ 49,757**

Yukon Development Corporation
FINANCIAL SUMMARY

	2001	2000 (restated)	1999 (restated)	1998 (restated)	1997 (restated)
EARNINGS ($000)					
Revenues					
Electric sales	22,242	22,386	23,181	24,534	27,656
Other	2,701	3,258	1,262	1,074	298
Total revenues	24,943	25,644	24,443	25,608	27,954
Operating expenses					
Administration	5,785	8,928	5,006	4,665	4,365
Amortization	5,646	5,135	5,087	4,816	5,659
Management fee	–	–	–	–	807
Operations and maintenance	5,208	5,413	5,614	5,943	13,476
Total operating expenses	16,639	19,476	15,707	15,424	24,307
Operating income	8,304	6,168	8,736	10,184	3,647
Finance charges	1,765	1,808	1,574	2,569	2,798
Contingency reserves	50	50	50	50	50
Energy Conservation Grant	–	–	–	–	500
Loss (gain) on investments	–	–	–	–	31
Transition costs	–	–	(7)	70	880
Other expenses	922	352	248	155	–
Net earnings (loss)	5,567	3,958	6,871	7,340	(612)
CASH FLOWS ($000)					
Operations	13,810	11,601	13,486	5,059	7,890
Capital expenditures	(11,536)	(9,656)	(11,900)	(4,994)	(1,920)
Investing	(812)	(226)	(1,414)	(576)	(408)
Financing	171	3,283	13,242	(2,139)	(4,891)
Other	–	–	–	(402)	(1,510)
Net inflow (outflow)	1,633	5,002	13,414	(3,052)	(839)
BALANCE SHEET ($000)					
Capital assets					
Gross	176,880	165,715	156,496	145,058	142,863
Net	131,369	124,960	120,041	112,015	111,186
Investments	4,082	4,336	4,561	4,759	4,934
Total assets	181,159	178,606	173,232	145,740	140,650
Capitalization					
Long-term debt	44,388	45,233	46,019	46,772	47,584
Equity	108,314	102,747	98,789	91,918	84,684
FINANCIAL RATIOS					
Capital structure at year end					
Long-term debt %	29	31	32	34	36
Equity%	71	69	68	66	64
Weighted average borrowing					
Rate at year end %	7.67	7.68	7.70	7.71	7.72
Return on equity %	5.28	3.93	7.21	8.31	(0.72)
Interest coverage	4.15	3.19	4.68	5.96	0.78

COMPANY PROFILE

Yukon Energy Corporation

Established in 1987, Yukon Energy is a publicly owned electrical utility that is incorporated, franchised and regulated by the *Business Corporations Act, Public Utilities Act* and *Yukon Waters Act*. Governed by a board of directors appointed by the shareholder, Yukon Energy is a wholly owned subsidiary of Yukon Development Corporation.

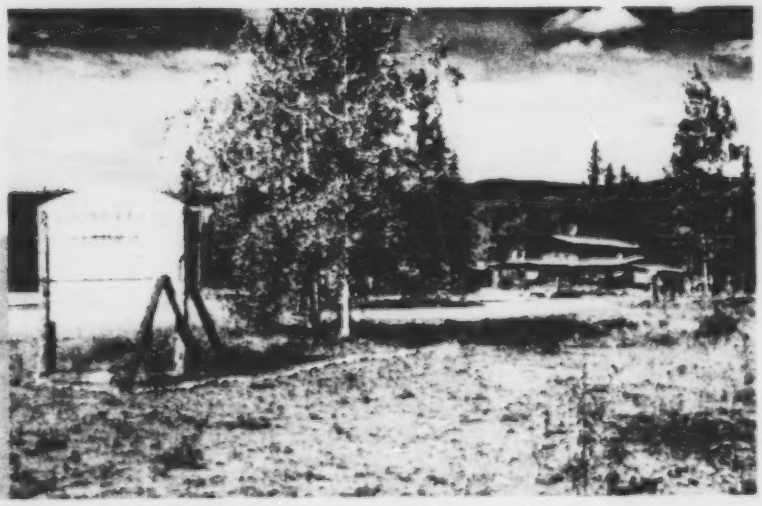
The corporation is the primary generator and transmitter of electrical energy in the territory. It distributes power to commercial, municipal, wholesale and industrial customers as well as retail consumers in Dawson City, Faro, Mayo, Champagne and other rural areas throughout the territory.

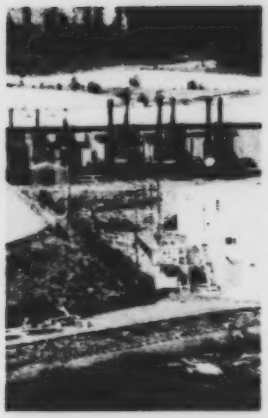
Yukon Energy's infrastructure includes 509.4 kilometres of transmission lines and a distribution system of 267 kilometres. The distribution system grew by 24 kilometres in 2001 as a result of new residential subdivisions, while the transmission network will be extended by 43.4% to 732.4 kilometres over the coming year with the completion of an intertie from the Mayo hydro generating station to Dawson City.

Total length of distribution and transmission lines

	2001	2000	1999
Total length of distribution lines (km)	267	243	221
Total length of transmission lines (km)	509.4	509.4	509.4

Yukon Energy's generating capacity is approximately 114 MW (megawatts) of electricity, of which 75 MW are produced by hydro facilities located at Whitehorse, Mayo and Aishihik Lake. Another 38.3 MW are supplied by diesel generators in Whitehorse, Faro, Mayo and Dawson City, while two wind turbines near Whitehorse provide about 0.8 MW of capacity. In the absence of any industrial customers, gross annual generation currently ranges between 265 to 275 GWh (gigawatt-hours).





Total gross generating capacity (GWh)

	Gross generation capacity (MW)
Fossil fuel (diesel) generating stations	
Whitehorse	25.0
Faro	5.3
Dawson City	6.0
Mayo	2.0
Total diesel	**38.3**
Hydroelectric generating stations	
Whitehorse Rapids	40.0
Aishihik Lake	30.0
Mayo	5.0
Total hydro	**75.0**
Alternative energy generation (wind) sources	
Haeckel Hill (Bonus)	0.15
Haeckel Hill (Vestas)	0.66
Total wind	**0.81**

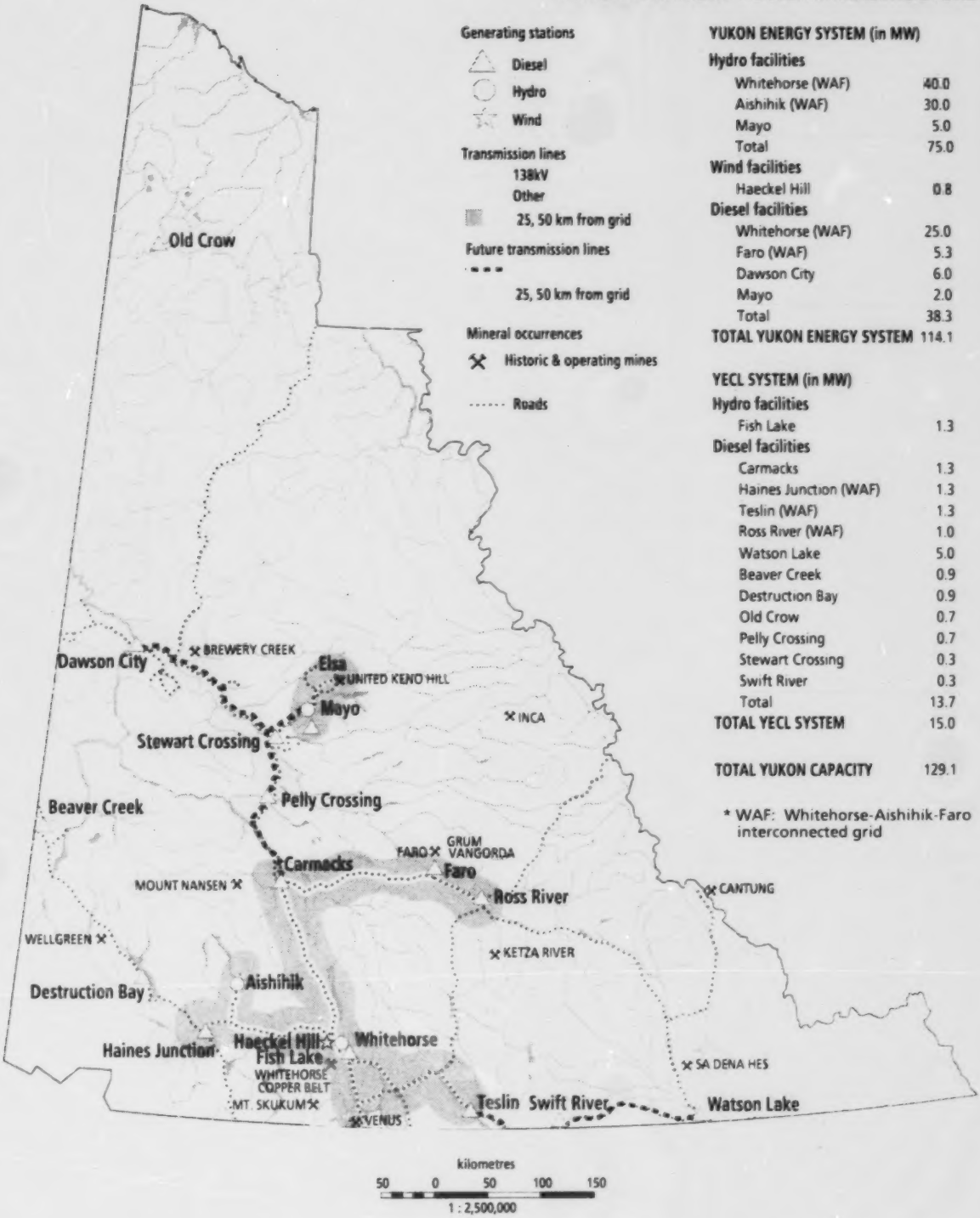
Total generation increased slightly in 2001 due to a rise in secondary sales and increased demand at the Faro mine for maintenance. Electricity produced by diesel generators dropped by almost 2 GWh, which can be partly attributed to the House Calls Energy Efficiency Program. Wind power rose dramatically to 1.1 GWh as a result of a full production year from the 660 kW Vestas turbine.

Actual gross generation (GWh)

	2001	2000	1999
Fossil fuel (diesel generation)	15.1	16.0	27.41
Hydroelectric	256.7	252.10	242.80
Alternative energy (wind)	1.1	0.40	0.27
Total	272.9	268.50	270.49

As of December 31, 2001, there were approximately 1,650 electricity consumers served directly by Yukon Energy, from a total Yukon customer base of about 15,150. These customers were located primarily in and around Dawson City, Mayo, Faro, Champagne and other rural areas. The corporation indirectly provides electricity to all communities on the Whitehorse-Aishihik-Faro grid by wholesaling power to The Yukon Electrical Company Limited for service to Whitehorse, Carcross, Carmacks, Haines Junction, Ross River and Teslin.

YUKON TERRITORY POWER INFRASTRUCTURE



YUKON ENERGY SYSTEM (in MW)	
Hydro facilities	
Whitehorse (WAF)	40.0
Aishihik (WAF)	30.0
Mayo	5.0
Total	75.0
Wind facilities	
Haeckel Hill	0.8
Diesel facilities	
Whitehorse (WAF)	25.0
Faro (WAF)	5.3
Dawson City	6.0
Mayo	2.0
Total	38.3
TOTAL YUKON ENERGY SYSTEM	114.1

YECL SYSTEM (in MW)	
Hydro facilities	
Fish Lake	1.3
Diesel facilities	
Carmacks	1.3
Haines Junction (WAF)	1.3
Teslin (WAF)	1.3
Ross River (WAF)	1.0
Watson Lake	5.0
Beaver Creek	0.9
Destruction Bay	0.9
Old Crow	0.7
Pelly Crossing	0.7
Stewart Crossing	0.3
Swift River	0.3
Total	13.7
TOTAL YECL SYSTEM	15.0

TOTAL YUKON CAPACITY	129.1

* WAF: Whitehorse-Aishihik-Faro interconnected grid

YEAR IN REVIEW

Yukon Energy Corporation

ELECTRICITY RATES

Electricity rates remained unchanged in 2001 because of ongoing cost controls that enabled Yukon Energy to avoid a rate application to the Yukon Utilities Board for the fifth consecutive year.

In October, the Yukon government announced that the bill subsidy program known as the Rate Stabilization Fund would be extended until March 31, 2005 within a $12 million cap. This ensures that the current level of benefits will continue for residential, business and municipal consumers.

INFRASTRUCTURE AND CAPITAL PLANNING

MAYO-DAWSON CITY TRANSMISSION LINE

Advancing the system through grid expansion The construction of a transmission line from Mayo to Dawson City progressed substantially in 2001. The project will displace primary diesel-generated electricity in Dawson City with surplus hydroelectricity from the Mayo generating station. Estimated utility savings over the project's 40-year life are in excess of $100 million while annually, up to 12,000 tonnes of greenhouse gases will be eliminated. The provision of cost-effective energy is also expected to support new regional economic development opportunities along the corridor.

The contract to build the transmission line was awarded to Chant Construction of Alberta in the first quarter of 2001. The design build agreement was signed in early April and a Yukon Energy project management team was established to monitor progress. Design, surveying and brushing began in the fall with 90% of the brushing and clearing completed by year-end. Permitting for the construction phase

was well underway by the end of the fourth quarter in anticipation of pole and wire installation commencing in February 2002.

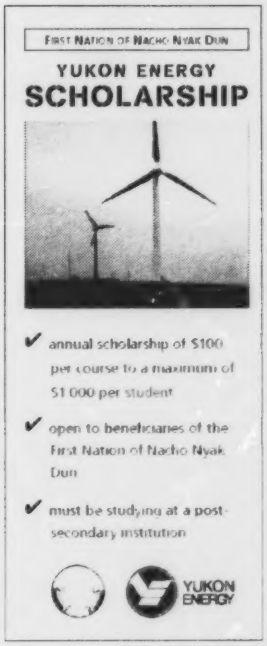
The project has not been without its challenges. One has been to identify the least intrusive route near Dawson City which respects new airport safety requirements and the highway right-of-way, and mitigates the impact of the corridor on placer mining claims. Yukon Energy and the general contractor successfully addressed most concerns and formalized the arrangement through a draft cooperation agreement with the Klondike Placer Miners' Association.

MAXIMIZING LOCAL ECONOMIC BENEFITS

Yukon Energy allocated significant resources to maximizing the local benefits of the Mayo-Dawson City transmission line project over the past year. The contract tender obliged all bidders to submit Yukon involvement plans and abide by the provisions of the benefit agreements struck with the Nacho Nyak Dun and Tr'ondëk Hwëch'in.

Additional points were awarded in the bid evaluation for the amount of Yukon and First Nation participation in the project, with the successful contractor proposing to spend a minimum of $4.5 million on local contracting and employment. To ensure Chant Construction meets or exceeds these commitments, penalties and incentives have been included in the contract.

The benefit agreement with the Nacho Nyak Dun and Tr'ondëk Hwëch'in is consistent with the Chapter 22 provisions of the land claim agreements and provides priority to the First Nations for employment and contracting


First Nation of Nacho Nyak Dun
YUKON ENERGY
SCHOLARSHIP
✔ annual scholarship of $100 per course to a maximum of $1 000 per student
✔ open to beneficiaries of the First Nation of Nacho Nyak Dun
✔ must be studying at a post-secondary institution
YUKON ENERGY

opportunities. It also creates scholarship funds for beneficiaries, provides ongoing apprenticeships with Yukon Energy, and enables the Nacho Nyak Dun and Tr'ondëk Hwëch'in to obtain and remove salvageable timber. The First Nations also have an investment option to purchase up to 49% of the project, guaranteeing a certain revenue stream that can be reinvested in their communities.

A project oversight committee and a project steering committee, comprised of representatives from Nacho Nyak Dun, Tr'ondëk Hwëch'in, Yukon Development Corporation and Yukon Energy, convene regularly to monitor the implementation of the agreement and ensure that emerging issues are addressed.

The creation of the scholarship program has already been initiated while the nature and terms of the investment option are currently being determined. In addition to subcontracting First Nation and other Yukon companies, Chant Construction held a pre-hiring orientation and training workshop for the Nacho Nyak Dun and Tr'ondëk Hwëch'in early in 2002. As of January 31, 2002, the corporation provided 27,000 hours of local employment and the overall value of goods and services purchased in the Yukon was estimated at $3.55 million.

CARMACKS-STEWART CROSSING FEASIBILITY STUDY

Meeting future supply through renewable sources The past year also saw the initiation of corridor identification, technical feasibility and environmental assessment for a transmission line from Carmacks to Stewart Crossing. The project would integrate the territory's

electrical networks to allow power to be generated and transferred at various points throughout the system. Aside from the economic and environmental benefits, the elimination of existing and future requirements for diesel-generated electricity in Pelly Crossing and elsewhere would improve long-term rate stability.

Though the transmission line will not be constructed for several years, planning and consultation must start now to allow sufficient time for environmental assessment and permitting, and securing some form of land tenure.

Yukon Energy will continue to assess the feasibility of other grid connections as part of its ongoing infrastructure planning.

OTHER CAPITAL PROJECTS

Improvements to ensure reliability, safety and cost-effectiveness Though the construction of the Mayo-Dawson City transmission line dominated Yukon Energy's 2001 capital program, improvements were made to several other areas of the corporation's operations.

Cross-arms and poles were replaced on the Whitehorse to Faro transmission line and back-up diesel generators purchased for Mayo. A computer-based plant control system upgrade was completed in Dawson City and a bridge installed on the Aishihik Lake access road.

As part of periodic monitoring, Yukon Energy staff detected a small depression in the Whitehorse Rapids Dam in the spring of 2000. An independent dam safety specialist was hired to conduct a number of structural integrity tests. The resulting report concluded the site should be monitored on an ongoing basis. Since that time, Yukon Energy has been inspecting the site continuously and no degradation has occurred. In addition, an independent dam safety review, conducted in accordance with the guidelines of the Canadian Dam Association, was completed in August 2000. The depression was noted in the review and ongoing monitoring was recommended. Yukon Energy continues to assess the situation and will take corrective action as required.

GOING GREEN

MAINTAINING OUR COMMITMENT TO WIND ENERGY DEVELOPMENT

With the financial support and cooperation of Yukon Development Corporation, Yukon Energy continued to advance the territory's wind energy regime in 2001. The 660 kW Vestas turbine on Haeckel Hill completed its first year without significant difficulty while the 150 kW Bonus unit located at the same site continued to operate reliably. Rime icing on the turbine blades remains a barrier to increased performance though adaptations have substantially improved efficiency.

The corporation conducted a commercial wind monitoring program in Faro, at Mount Sumanik and Haeckel Hill near Whitehorse, and at Ferry Hill near Stewart Crossing as part of ongoing energy supply planning. The technical and financial issues for small turbine installations serving three communities reliant on diesel-generated electricity were examined as part of the Expression of Interest issued by Yukon Development Corporation's Green Power Initiative.

The development of wind energy is part of an ongoing commitment by Yukon Development Corporation to develop cost-competitive renewable energy sources with the technical assistance of Yukon Energy. This has enabled the utility to become a wind energy leader in sub-arctic climates and for these efforts, John Maissan, Director of Technical Services, was presented with the R.J. Templin award in October 2001 from the Canadian Wind Energy Association.

This significant achievement from a national industry organization recognized Maissan's outstanding contribution to adapting, installing and operating turbines in northern environments.

TESTING NEW GREEN POWER APPLICATIONS

A portable solar-hybrid unit, created by Yukon Energy and funded by Yukon Development Corporation as a demonstration project, tests the feasibility of supplying electricity to remote locations and familiarizes consumers with solar power and its potential applications.

The unit was locally constructed and is sized for small-scale residential use. Outside of heat loads, it provides enough electricity to run common household items, well pumps and power tools. Installation simply involves positioning the unit on a level, south-facing area, grounding the system and cabling the inverter. Maintenance requires an occasional cleaning of the solar modules and maintaining proper water levels in the batteries. An additional charging source is needed during winter months and after periods of high-energy usage. The solar-hybrid unit can also house a small generator, which is pre-wired with a balancing transformer to the inverter charger input.

Since its inception, the unit has helped meet the power requirements at numerous community events including the Dawson Gold Show, Yukon International Storytelling Festival, Farrago Music Festival, Commissioner's Potlatch and the Yukon Agricultural Fair. It was also previously loaned to the Mount Lorne Garbage Management Society to provide electricity to the community waste site office.

The solar-hybrid unit is provided to non-government organizations free-of-charge to promote and test this technology under local conditions.

MEETING OUR ENVIRONMENTAL RESPONSIBILITIES

AISHIHIK LAKE RE-LICENSING AND COMPENSATION

Efforts to secure a 25-year license for the Aishihik Lake hydro generating station continued in 2001 following a submission to federal authorities for the environmental impact assessment and a water license application to the Yukon Territory Water Board in January 1999.

Yukon Energy presented its application to the water board during six days of the first stage of hearings held in Whitehorse and Haines Junction in late June. A comprehensive agreement for environmental mitigation and monitoring was reached between Yukon Energy, the Yukon government, Champagne and Aishihik First Nations (CAFN), the Department of Fisheries and Oceans, and the Department of Indian Affairs and Northern Development (DIAND) and was then presented to the board. Consensus was also achieved with DIAND on dam safety issues.

The corporation presented its closing statements on the final day of the second stage of hearings in early September. The board is expected to announce the full conditions of the water license in 2002.

At the June hearings, Yukon Energy and CAFN jointly requested that compensation for lake residents whose livelihood has been affected by the hydro generating station be deferred. This enabled letters of offer to be issued to individual claimants and discussions to occur with CAFN about water access and shoreline erosion protection. Compensation negotiations were ongoing at year-end.

ONGOING DEDICATION TO SUPERIOR ENVIRONMENTAL PERFORMANCE

Yukon Energy continued to improve its environmental performance consistent with the comprehensive environmental policy adopted in 1999. Environmental and sustainable development objectives form key components of Yukon Energy's annual and multi-year business plans, with progress tracked through quarterly reports submitted to the board of directors. An annual report on the corporation's advancements in the areas of environment, finance, health and safety, and customer service is also filed with the Yukon Utilities Board.

Yukon Energy submitted its third report to the Canadian Electricity Association, noting significant environmental achievements during 2001. The corporation is working to become ISO 140001 compliant in conjunction with the organization's Environmental and Responsibility Program.

These achievements included the construction of berms at sensitive sites along the north shore of Aishihik Lake, which is used to provide multi-year hydro storage for the corporation's nearby generating station. The structures minimize ongoing shoreline erosion and protect culturally significant sites as part of a comprehensive heritage resource mitigation plan developed with CAFN and the Yukon government's Heritage Branch.

Construction commenced on the 223-kilometre transmission line, associated substations and a control system to connect the Mayo hydro generating station to Dawson City to displace diesel fuel power in that community and annually eliminate up to 12,000 tonnes of greenhouse gas emissions. Potential concerns about traditional sites along the corridor were addressed by completing an assessment with affected First Nation governments.

Plans for significant capital improvements were made for the Whitehorse Rapids Fish Hatchery, owned by Yukon Energy and jointly operated and funded with the Yukon government. The upgrades included the addition of large tanks to expand the rearing capacity for Chinook fry and installation of a computerized Oxy Guard and re-circulation system. The latter improvements will benefit Chinook fry and several freshwater species including arctic char, bull trout, Kokanee salmon and lake trout.

The 2001 egg take at the hatchery was 294,189, which resulted in a 2002 spring release of 244,045 fry. In 2002, 180,000 eggs are expected to be taken, resulting in approximately 150,000 fry for a spring 2003 release.

Yukon Energy continued to sponsor land cover and habitat mapping, migratory bird assessment and water chemistry analysis of the southern lakes region as part of an interagency partnership with Ducks Unlimited Canada and its Western Boreal Forest Initiative. The area includes the watershed that supports the Whitehorse Rapids hydro generating station.

The House Calls Energy Efficiency Program was successfully concluded in 2001. Delivered by the Yukon Conservation Society and supported by Yukon Energy and other partners, the initiative installed free energy-saving products in close to 1,500 homes in 18 communities. The yearly cost-savings for participating households is estimated to be $216 while 1,845 tonnes of carbon dioxide emissions are expected to be eliminated annually.

The corporation contributed to the delivery of the Renewable Power Sales Incentive Program in partnership with Yukon Development Corporation and the Energy Solutions Centre. This initiative sells surplus hydroelectricity available from the Whitehorse-Aishihik-Faro grid to commercial and institutional customers for space heating at a discounted rate. The competitive price enables participants to reduce their energy costs by using renewable energy to displace fossil fuel heating.

Yukon Energy also received the Gold Level Reporter status from the Voluntary Challenge Registry (VCR Inc.) for tracking, reporting

and reducing carbon dioxide emissions in partnership with Yukon Development Corporation and the Energy Solutions Centre.

The report submitted by Yukon Development Corporation on behalf of itself, Yukon Energy and the Energy Solutions Centre calculated total greenhouse gases since 1990 and established clear performance indicators such as projected future emissions, target setting, measures to reach these targets and results currently achieved. It noted that carbon dioxide emissions decreased by 65% or 23,630 tonnes during this period and that the companies are dedicated to maintaining this success over the next decade despite a potential load growth of up to 36%. Yukon Energy's greenhouse gas emissions continued to decline by over 600 tonnes in 2001 due to reductions in diesel-generated electricity.

EMISSIONS TRADING

Consistent with board approval for the Mayo-Dawson City transmission line, Yukon Energy collaborated with its parent company to market greenhouse gas emission credits from the project. Emission credits are usually based on energy no longer produced from fossil fuels due to displacement or efficiencies. For example, eliminating diesel-generated power in Dawson City with surplus hydroelectricity from the Mayo generating station is expected to annually produce 7,000 to 16,600 tonnes of carbon dioxide emission credits depending on electricity demand.

The credits are sold or traded to companies that are unable to reduce their fossil fuel emissions but may want or be required to decrease their

EMISSIONS		2001	2000	1999
Carbon dioxide (CO_2)	Total gross annual CO_2 emission (tonnes)	10,302	10,912	18,696
	Mass gross CO_2 emitted per unit of net fossil generation (kg/kWh)	0.86	0.79	0.74
	Mass gross CO_2 emitted per unit of net system generation (kg/kWh)	0.039	0.042	0.070
	Mass net CO_2 emitted per unit of net fossil generation (kg/kWh)	0.86	0.79	0.74
	Mass net CO_2 emitted per unit of net system generation (kg/kWh)	0.039	0.042	0.070
Sulphur dioxide (SO_2)	Total gross annual SO_2 emission (tonnes)	25.7	27.20	46.60
	Mass gross SO_2 emitted per unit of net fossil generation (g/kWh)	2.15	1.97	1.90
	Mass gross SO_2 emitted per unit of net system generation (g/kWh)	0.10	0.10	0.17
	Mass net SO_2 emitted per unit of net fossil generation (g/kWh)	2.15	1.97	1.90
	Mass net SO_2 emitted per unit of net system generation (g/kWh)	0.10	0.10	0.17
Nitrogen oxides (NO_x)	Total gross annual NO_x emission (tonnes)	184.3	195.2	334.5
	Mass gross NO_x emitted per unit of net fossil generation (g/kWh)	15.42	14.14	13.30
	Mass gross NO_x emitted per unit of net system generation (g/kWh)	0.69	0.74	1.26
	Mass net NO_x emitted per unit of net fossil generation (g/kWh)	15.42	14.14	13.30
	Mass net NO_x emitted per unit of net fossil generation (g/kWh)	0.69	0.74	1.26

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greenhouse gases in the future. Although emissions trading remains an emerging market, Yukon Energy expects that greenhouse gas credits will be a highly valued commodity within a regulated environment. This is because climate change has become an increasingly important issue for national governments and the subject of international agreements.

The emission credits from the Mayo-Dawson City transmission line project were packaged into a prospectus and targeted to a select group of Canadian energy companies. This resulted in negotiations commencing with a utility in the third quarter.

OTHER ACTIVITIES

A comprehensive audit of Yukon Energy's occupational health and safety policy, program and practices was completed by an independent auditor. This led to the development of a new health and safety action plan that establishes priorities and specific tasks for the next four years.

A new collective agreement was reached for employees with the Public Service Alliance of Canada and the corporation continued to implement pay equity for bargaining unit positions.

CORPORATE CITIZENRY

BUILDING STRONG COMMUNITIES

Yukon Energy shows its commitment to corporate stewardship and citizenry by actively participating in community events and sponsoring non-profit organizations.

Through its corporate contributions program, over $64,000 was allocated to 71 community groups in 2001. In addition, computer monitors and hard drives were donated to Teegatha' Oh Zheh Society, which helps adults with learning disabilities reach their full potential, as well as to Computers for Schools and the Whitehorse Youth Centre. The corporation was a primary contributor to the highly successful Yukon Science Fair and Yukon Energy Fair in cooperation with Yukon Development Corporation and the Energy Solutions Centre.

Yukon Energy staff actively participated in community events including the Lions Trade Show, Circumpolar Climate Exchange Conference, United Way annual luncheon, Skills Canada career fairs, City of Whitehorse Sneaker Day and the Peter Gzowski Invitational Tournament for Literacy. Senior management also served on the board of directors of the Whitehorse Chamber of Commerce and the Yukon Arts Centre Foundation.

In addition, the corporation adopted the Executive Sponsorship Program to foster a greater understanding about the corporation with stakeholders and to build support for its current and planned activities. The ongoing dialogue has the added benefit of ensuring that concerns can be quickly reported and acted upon by senior management.

Yukon Energy donations, 2001

Alsek Music Festival
Association of Yukon Communities
Cadet Squadron 212
Campbell Region Association for Tourism
Canadian Bar Association (Kaushee's Place)
Canadian Cancer Society
Crime Prevention Yukon
Cycling Association of Yukon
Dawson City Museum & Historical Society
Dawson City Music Festival
Dawson City Ski Association
Dawson City Women's Shelter
Del Van Gorder School, Yearbook Committee
Environmental Education Association of the Yukon
Faro Swim Team
Faro T-Ball Program
Faro Youth Volunteer Committee
Farrago Festival 2001
First Faro Girl Guides
Gathering of Traditions Potlatch
Guild Society
Interagency Committee
Klondike Centennial Society
Klondike Institute of Art and Culture
Klondike Visitors Association
Leaf Coordination Services
Learning Disabilities Association Yukon
Longest Night Society
Mayo Carnival Society
Mayo Curling Club
Mayo Fire Department
Mayo Fly-By-Night Running Club
Mayo Graduation Class
Mayo Soccer Club
Midnight Sun Kickers
Nakai Theatre
North Yukon Eagles Hockey Club
Oldtimers Hockey Challenge
Ravens Theatre Co. Inc.
RCMP NCP Faro Detachment
RCMP - Dawson Detachment
RCMP and VOM
Robert Service School
Run for Mom
Silver Trail Chamber of Commerce
Sport Yukon
Squash Yukon
Tantalus Weightlifting Team
Tourism Industry Association of Yukon
Town of Faro, Ice-Worm-Squirm
Tr'ondëk Hwëch'in First Nation
United Way Yukon
Village of Mayo
Whitehorse Concerts
Whitehorse Curling Club
Whitehorse Rodeo Association
Winter Youth Leadership Program
Yukon Amateur Hockey Association
Yukon Art Society
Yukon Arts Centre
Yukon Canoe and Kayak Club
Yukon Conservation Society
Yukon Council on Disability
Yukon Dance Festival Society
Yukon Dart Association
Yukon Energy Scholarship Program
Yukon Historical & Museums Association
Yukon International Storytelling Festival
Yukon Learn
Yukon River Trail Marathon
Yukon Sourdough Rendezvous
Yukon Special Olympics

MITIGATING THE IMPACT OF OUR OPERATIONS

Yukon Energy is sensitive to the effect of its operations on nearby neighbourhoods and annually dedicates substantial resources for mitigation.

In 2001, the corporation planned the Whitehorse Millennium Trail in partnership with the City of Whitehorse and the Yukon Council of Disability. The four-kilometre paved track, which was completed during the summer of 2002, provides easy accessibility for walkers, joggers and cyclists while winding around the perimeter of the Yukon River adjacent to the Whitehorse hydro generating station. The path showcases local geology, flora, fauna and other natural features, and will eventually link both sides of the river by a pedestrian bridge.

The Millennium Trail complements other walks located nearby at Schwatka Lake, Miles Canyon and Canyon City, important stops for the Klondike gold rush stampeders on their way to Dawson City. To improve public awareness of these walks and an understanding of its operations, Yukon Energy commissioned two guiding booklets (*Enjoying Whitehorse Trails* and *Exploring the Whitehorse Fishway*, both published in English, French and German) and two publications (*The Power of Water* and *The Winds of Change*).

Yukon Energy also maintained its sponsorship of the Yukon Fish and Game Association to operate the Whitehorse Fish Ladder, one of the longest wooden fish ladders in the world.

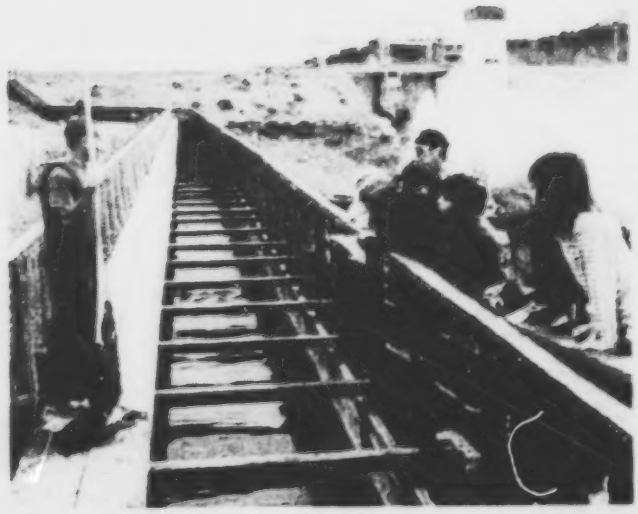
FOSTERING SCHOLASTIC AND COMMUNITY EXCELLENCE

The past year also saw the creation of the Yukon Energy Scholarship, in partnership with Yukon Development Corporation, to support the development of local expertise. This two-year scholarship of $4,000 is open to Yukon residents studying full-time at a post-secondary institution in Canada or Alaska. Students must be pursuing studies in the sciences, engineering, technologies, business administration, commerce or economics, or related areas. For two consecutive years, evaluations consider academic performance and community citizenship.

Yukon Energy was pleased to present the 2001 scholarships to Stephen Kirkham of Faro and Brett Stevenson of Whitehorse in recognition of their outstanding scholastic achievements and significant volunteer activity.

YUKON UTILITIES BOARD ORDERS

The Yukon Utilities Board did not issue any orders affecting the business and affairs of Yukon Energy in 2001.



SUMMARY OF UTILITY OPERATIONS

	2001	2000	1999	1998	1997	1996
Generating capacity (in MW)						
Hydro	75	75	75	75	75	75
Diesel	40	40	45	45	45	45
Wind	1	1	0	0	0	0
Total	**116**	116	120	120	120	120
Peak demand (in MW)						
WAF system	51	48	51	54	67	79
Mayo	3	3	3	3	3	3
Dawson	3	3	3	3	3	2
Total	**57**	54	57	60	73	84
Generation (in GWh)						
Whitehorse Rapids	141	187	195	190	183	229
Aishihik	107	56	38	63	59	110
Mayo	8	9	10	11	11	16
Wind	1	0	0	0	0	0
WAF diesel	0	1	12	7	82	105
Other diesel	15	15	15	15	14	14
	273	269	270	286	349	474
Electric sales (in $000)						
Residential	1,288	1,325	1,372	1,519	1,555	1,648
General service	1,963	1,954	1,959	2,045	1,978	1,795
Industrial	128	154	205	1,332	7,542	14,207
Wholesale	18,685	18,883	19,357	19,568	15,432	16,020
Other	75	72	288	70	1,149	280
	22,138	22,388	23,181	24,534	27,656	33,950
Electric sales (kWh)						
Residential	9,564	9,887	10,321	11,403	12,796	14,146
General service	12,547	12,426	12,390	12,981	13,561	13,682
Industrial	2,128	2,922	3,692	18,105	80,818	183,447
Wholesale	222,396	221,329	223,643	222,958	222,508	232,094
Other	261	240	227	224	233	228
	246,896	246,804	250,273	265,669	329,916	443,598

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OPERATIONS AND FINANCIAL REVIEW

GENERATION

Production levels expanded slightly in 2001 to 273 GWh from 269 GWh in 2000. Hydroelectricity accounted for 94% of total generation in 2001, similar to the previous year. The rise in total generation is a result of increased secondary sales and greater demand at the Faro mine for maintenance.

ELECTRICITY SALES

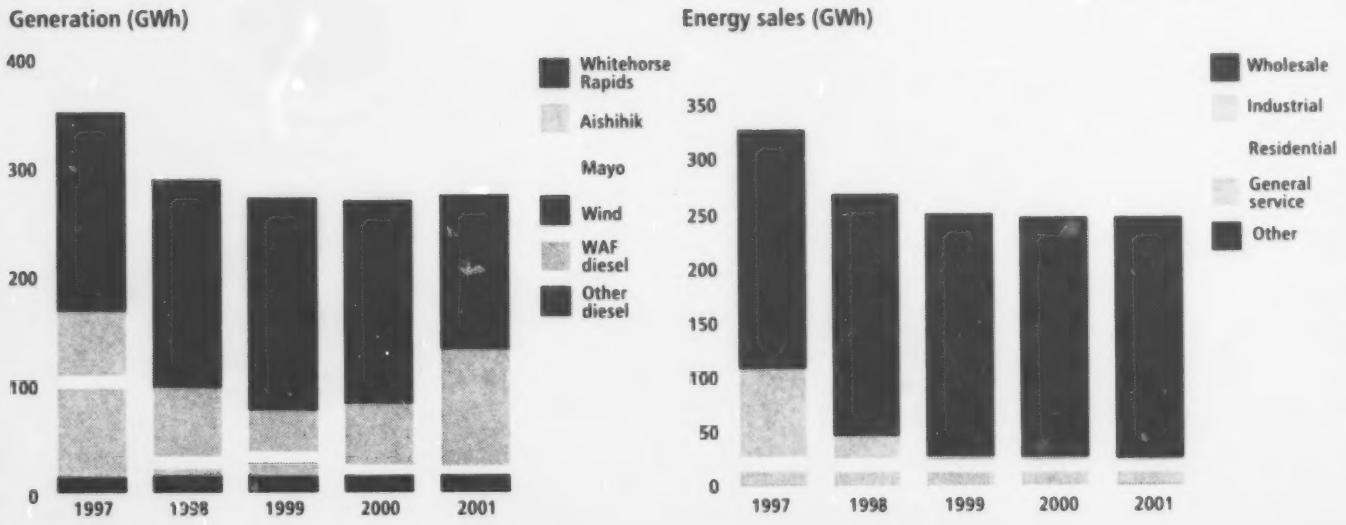
Electricity sales for 2001 were virtually unchanged from 2000 at about 247 GWh. Decreases of 3.3% and 27.2% were felt in the residential and industrial sectors respectively while increases of 1.0%, 0.5% and 8.8% occurred in the general service, wholesale and other categories.

Sales revenue for the year that ended December 31, 2001 was $22.1 million compared to $22.4 million in 2000.

FINANCIAL REVIEW

(thousands of dollars unless otherwise stated)

	2001	2000
Net earnings	3,247	938
Sale of power	22,138	22,388
Capital expenditures	10,927	6,111
Capital assets	123,046	119,450
Long-term debt	76,477	74,937
Return on equity (%)	6.3	1.9
Debt to equity	60:40	60:40



OPERATING EXPENSES

Operating expenses were $15.4 million in 2001 as opposed to $18.8 million in 2000. Administration accounted for 32.2% of the total whereas this figure was 44.8% in the previous year. Amortization rose to 34.0% from 26.4% in 2000 while operations and maintenance was 33.7% compared to 28.8% over the same period.

Administration expenses decreased to $5.0 million in 2001 from $8.4 million in 2000. The decrease is largely due to the write-off of receivable balances owing from two industrial customers last year. Operation and maintenance expenses decreased to $5.2 million in 2001 from $5.4 million in 2000. Amortization of capital assets totaled $4.8 million in 2001 compared to $4.6 million in 2000, while amortization of deferred charges rose to $0.5 million in 2001 from $0.4 million in 2000.

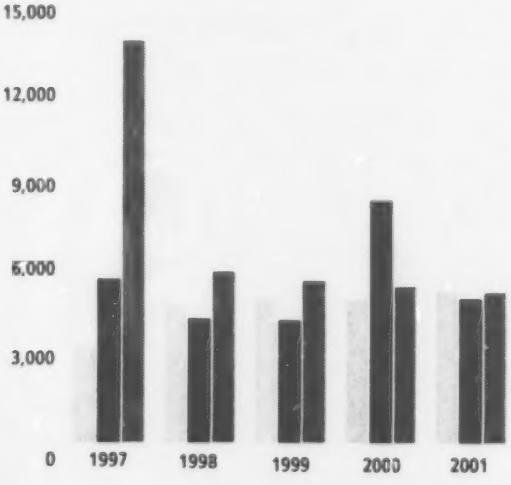
INTEREST ON LONG-TERM DEBT

Interest on long-term debt rose by $37,000 to $4,376,000 in 2001. The increase was caused by the addition of debt owing to the parent of $2,196,000 and offset by long-term debt repayments of $687,000.

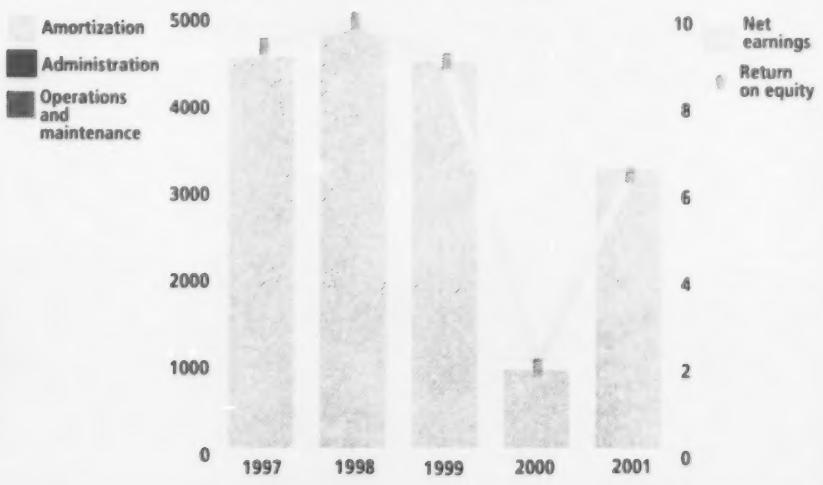
CAPITAL AND DEFERRED EXPENDITURES

The corporation's principal requirement for funds is for capital and deferred expenditures on its utility assets. Capital and deferred expenditures totaled $12.0 million for 2001, up $5.0 million from expenditures of $7.0 million in 2000.

Operating expenses ($000)



Net earnings ($000) and return on equity (%)



During 2001, capital spending totaled approximately $11.0 million compared to $6.1 million in the previous year. Expenditures for transmission projects increased to $937,000 from $415,000 in 2000. Spending for distribution projects was $352,000 as opposed to $126,000 a year earlier, while investment in generation projects declined to $1,995,000 from $3,107,000 in 2000. General property and equipment purchases decreased to $1,214,000 from $1,820,000 in the previous year. Expenditures for the Mayo-Dawson City transmission project totaled $6.7 million in 2001.

Deferred expenses were $1.0 million in 2001 as compared to $325,000 in 2000, with major costs including $658,000 for re-licensing and $301,000 for downsizing.

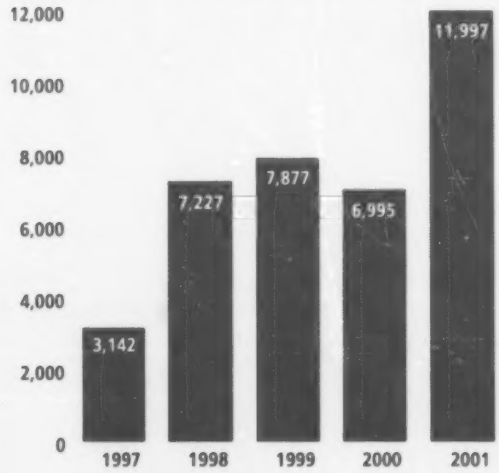
CAPITAL STRUCTURE

At December 31, 2001, long-term debt totaled $76.4 million compared to $74.9 million in the previous year.

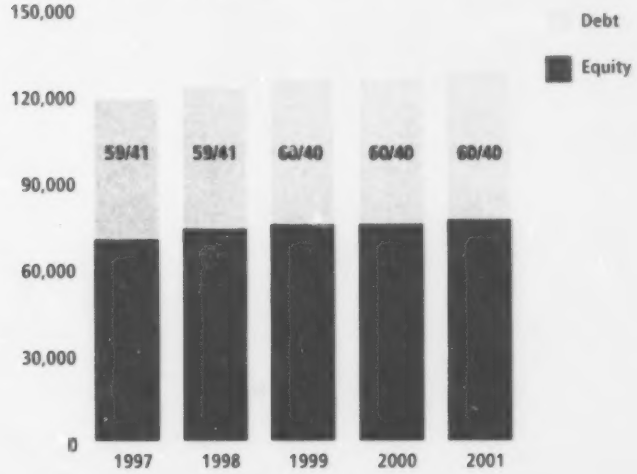
The corporation has an operating demand overdraft facility bearing interest at bank prime rate, allowing it to borrow up to $10 million.

At December 31, 2001, the corporation's weighted cost of debt financing was 8.4% and the debt to equity ratio of 60:40 remains unchanged from 2000.

Capital and deferred expenditures ($000)



Capital structure ($000)



During 2001, capital spending totaled approximately $11.0 million compared to $6.1 million in the previous year. Expenditures for transmission projects increased to $937,000 from $415,000 in 2000. Spending for distribution projects was $352,000 as opposed to $126,000 a year earlier, while investment in generation projects declined to $1,995,000 from $3,107,000 in 2000. General property and equipment purchases decreased to $1,214,000 from $1,820,000 in the previous year. Expenditures for the Mayo-Dawson City transmission project totaled $6.7 million in 2001.

Deferred expenses were $1.0 million in 2001 as compared to $325,000 in 2000, with major costs including $658,000 for re-licensing and $301,000 for downsizing.

CAPITAL STRUCTURE

At December 31, 2001, long-term debt totaled $76.4 million compared to $74.9 million in the previous year.

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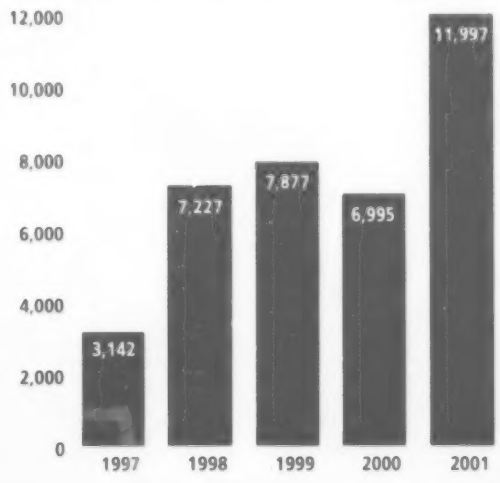

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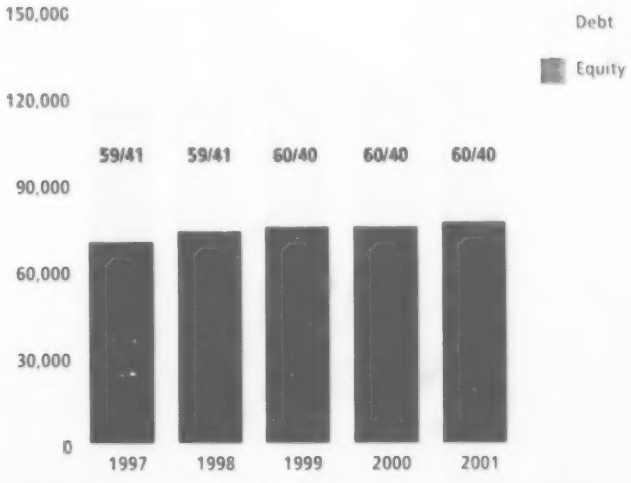


BOARD OF DIRECTORS & STAFF

Yukon Energy Corporation

Yukon Energy Corporation
P.O. Box 5920
Whitehorse, Yukon Y1A 6S7
Phone: (867) 393-5300, toll free in the Yukon: 1-877-712-3375
Fax: (867) 393-5323
E-mail: info@yec.yk.ca
Website: www.yec.yk.ca

DIRECTORS AND STAFF at December 31, 2001

BOARD OF DIRECTORS

Chair
Angus Robertson

Directors
Lorne Austring
Fred Blanchard
Ed Chambers
Carl Charlie
Pat Irvin
Duncan Sinclair
Sally Wright

OFFICERS

President and
Chief Executive Officer
Don Willems

Acting Corporate Treasurer
Wendy Fendrick

Corporate Secretary
Rod Snow

Assistant Corporate Secretary
Monica Lauer

Second Assistant Corporate Secretary
Darlene Morgan

Director of Technical Services
John Maissan

COMMITTEES

Human resources
Chair
Angus Robertson

Member
Sally Wright

Audit
Chair
Pat Irvin

Members
Carl Charlie
Duncan Sinclair

Corporate contributions
Chair
Fred Blanchard

Member
Don Willems

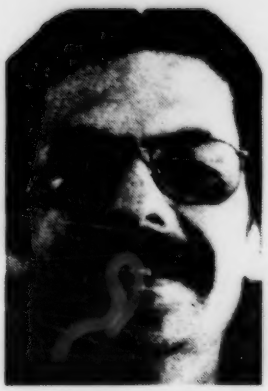
AUDITOR

Auditor General of Canada

Don Willems, President and C.E.O. of Yukon Energy, is a long-time Yukon resident with more than 15 years experience in the electrical utility industry. Mr. Willems is committed to the success of Yukon Energy and to the development of the corporation for the benefit of the Yukon. He believes that the north provides a challenging operating environment. "The Yukon Energy team of highly skilled, dedicated employees support environmental responsibility in day-to-day operations and demonstrate leadership and innovation in cost-effective, cold climate renewable energy."

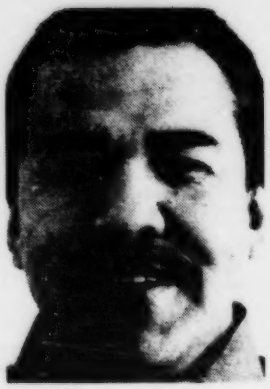
Angus Robertson, Chair and Director
Mr. Robertson is the Deputy Minister, Department of Economic Development, Government of the Yukon. He was appointed as chair and director in September 2001.

Lorne Austring, Director
Mr. Austring is a Whitehorse lawyer and partner in the law firm of Austring, Fendrick, Fairman & Parkkari where he practices corporate and commercial law. He has been on the board since September 2001 and was appointed chair in May 2002.



Fred Blanchard, Director
Mr. Blanchard is a member of the Little Salmon/Carmacks First Nation and plays an important role in promoting energy efficiency programs within Whitehorse and the rural communities. He has been on the board since August 1993.

Ed Chambers, Director
Mr. Chambers is a member of the Champagne and Aishihik First Nations and vice-chair of the Board Of Directors. He resides in Champagne and was appointed a director in February 1991 at the recommendation of the Council of Yukon First Nations. Ed brings considerable experience to board discussions as its longest serving member and former chair of the audit committee.



Carl Charlie, Director

Mr. Charlie was appointed to the board of directors in October 1999. He is a member and former councillor of the Vuntut Gwitchin First Nation, and has extensive experience in land use planning and a strong interest in assisting First Nation communities achieve greater energy sustainability and independence.

Pat Irvin, Director

Mr. Irvin has been a resident of the Yukon for over 25 years. He is the president of Watsonlakehotels.com, a corporation that operates three full service hotels in Watson Lake. He has been on the board of directors since November 1995 and offers a wealth of experience on business and financial matters. He chairs the audit committee.

Duncan Sinclair, Director

Mr. Sinclair is Director (ex-officio) on the board of directors.

Sally Wright, Director

Ms. Wright is a self-employed artist with an active interest in energy efficiency and renewable technologies. She has been on the board since September 1997.

AUDITED FINANCIAL STATEMENTS

Yukon Energy Corporation

AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

AUDITOR'S REPORT

Mr. Lorne Austring
Chair, Yukon Energy Corporation

I have audited the balance sheet of Yukon Energy Corporation as at December 31, 2001 and the statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2001 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Ronald C. Thompson, CA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
May 16, 2002

Yukon Energy Corporation
BALANCE SHEET

As at December 31, 2001 (in thousands of dollars)

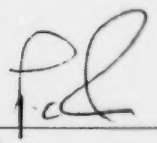
	2001	2000
ASSETS		
Current assets		
Cash and cash equivalents (note 3)	$ 8,097	$ 4,820
Accounts receivable (note 4)	6,638	11,597
Inventories	2,272	2,153
Prepaid expenses	441	378
Due from Yukon Development Corporation (note 13)	596	1,429
	18,044	**20,377**
Long-term receivables		
Mortgages receivable	39	137
	39	**137**
Funds held in trust (note 5)	**789**	**–**
Diesel Contingency Fund (note 6)	**682**	**(61)**
Capital assets (notes 7 and 10)	**123,046**	**119,450**
Reserve for uninsured losses (note 8)	**291**	**316**
Deferred charges (note 9)	**4,777**	**4,168**
	$ 147,668	**$ 144,387**
LIABILITIES		
Current liabilities		
Accounts payable	$ 2,119	$ 2,069
Current portion of long-term debt (note 10)	723	687
Regulatory liabilities (note 11)	1,804	2,086
	4,646	**4,842**
Deferred revenues (note 12)	**9,355**	**9,608**
Reserve for future removal and site restoration costs	**5,041**	**4,645**
Diesel Contingency Fund (note 6)	**682**	**(61)**
Long-term debt (note 10)	**76,477**	**74,937**
	$ 96,201	**$ 93,971**
SHAREHOLDER'S EQUITY		
Share capital		
Authorized: Unlimited number of a single class of shares with no par value		
Issued: 3,900 shares	39,000	39,000
Retained earnings	12,467	11,416
	51,467	**50,416**
	$ 147,668	**$ 144,387**

Contingencies and commitments (Note 15)

The accompanying notes are an integral part of the financial statements.

Approved by the Board:

Chair



Director

Yukon Energy Corporation
STATEMENT OF INCOME AND RETAINED EARNINGS

For the year ended December 31, 2001 (in thousands of dollars)

	2001	2000
Revenue		
Sales of power	$ 22,242	$ 22,386
Interest income	475	612
Other	390	1,093
	23,107	**24,091**
Operating expenses		
Administration	4,977	8,397
Operations and maintenance	5,208	5,413
Amortization of capital assets	4,797	4,557
Amortization of deferred charges	452	397
	15,434	**18,764**
Income from operations	**7,673**	**5,327**
Other expenses		
Interest on long-term debt	4,376	4,339
Provision for uninsured losses (note 8)	50	50
	4,426	**4,389**
Net income	**3,247**	**938**
Retained earnings, beginning of year	**11,416**	**11,274**
Dividend	**(2,196)**	**(796)**
Retained earnings, end of year	**$ 12,467**	**$ 11,416**

The accompanying notes are an integral part of the financial statements.

Yukon Energy Corporation
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Director

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Yukon Energy Corporation
STATEMENT OF CASH FLOWS

For the year ended December 31, 2001 (in thousands of dollars)

	2001	2000
Cash provided by (used in)		
Operating activities		
Net income	**$ 3,247**	**$ 938**
Items not resulting in a cash payment:		
Amortization of capital assets	4,797	4,557
Amortization of deferred charges	452	397
Increase in reserve for future removal and site restoration cost	396	575
	5,645	**5,529**
Changes in non-cash components of working capital		
Decrease (increase) in accounts receivable	4,959	(1,821)
Increase in inventories	(119)	(1,341)
Increase in prepaid expenses	(63)	(31)
Increase (decrease) in Due from Yukon Development Corporation	833	(1,698)
Increase in Funds held in trust	(789)	–
Increase (decrease) in accounts payable	50	(549)
(Decrease) increase in deferred revenue	(253)	2,905
Increase (decrease) in regulatory liability	(282)	1,620
	4,336	**(915)**
	13,228	**5,552**
Investing activities		
Additions to capital assets	(10,927)	(6,111)
Contributions for plant extension	2,601	119
Increase in deferred charges	(1,061)	(854)
Decrease in reserve for uninsured losses	25	430
	(9,362)	**(6,416)**
Financing activities		
Additions to long-term debt	2,196	796
Repayments of long-term debt	(687)	(588)
Decrease in long-term receivables	98	5,054
Dividends paid	(2,196)	(796)
	(589)	**4,466**
Net increase in cash during the year	**3,277**	**3,602**
Cash and cash equivalents, beginning of year	**4,820**	**1,218**
Cash and cash equivalents, end of year	**$ 8,097**	**$ 4,820**
Supplementary disclosure:		
Interest paid in the year	$ 4,375	$ 4,352

The accompanying notes are an integral part of the financial statements.

Yukon Energy Corporation
STATEMENT OF CASH FLOWS

For the year ended December 31, 2001 (in thousands of dollars)

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Yukon Energy Corporation
NOTES TO FINANCIAL STATEMENTS
December 31, 2001 (tabular amounts in thousands of dollars)

1. NATURE OF OPERATIONS

Yukon Energy Corporation (the "Corporation") was incorporated under the Yukon Business Corporations Act and is a wholly owned subsidiary of Yukon Development Corporation, a Yukon Crown Corporation. The Yukon Energy Corporation generates, transmits, distributes and sells electrical energy in the Yukon.

2. SIGNIFICANT ACCOUNTING POLICIES

Financial statement presentation

The financial statements of the Corporation have been prepared by management and conform to Canadian generally accepted accounting principles and take into account generally accepted methods and practices of regulatory bodies. The regulatory accounting practices adopted by the Corporation may differ from the accounting practices otherwise applied in unregulated enterprises. In particular, the timing of the Corporation's recognition of certain assets, liabilities, revenues and expenses as a result of regulation may differ from that otherwise expected using generally accepted accounting principles. A description of the significant accounting policies follows.

Water regulation

The Yukon Territory Water Board decides if and for how long the Corporation will have a water license for the purposes of operating dams for hydro generation. The licenses will also indicate terms and conditions for the operation of dams.

Rate regulation

The Corporation is regulated by the Yukon Territory Water Board pursuant to the Yukon Waters Act (Canada) and the Yukon Utilities Board (YUB) pursuant to the Public Utilities Act (Yukon). The regulatory process begins when the Corporation makes a General Rate Application for its proposed electricity rate changes over the next one or two forecast years. The Yukon Utilities Board must ensure that its decision, which fixes electricity rates, complies with all relevant legislation including the Public Utilities Act and directives issued by the Yukon Government through Orders-In-Council that specify how the interests of the customer and the utilities are to be balanced.

The YUB follows a two-stage decision process. In the first stage the total costs that the utility will incur by making electricity available to its customers over the immediate future are approved. The approval of these costs determines the total revenues the utility is allowed to collect from its customers. It is the responsibility of the YUB to examine the legitimacy of three classes of costs:

- the costs to the utility to run its operations and maintain its equipment (personnel and materials);
- the cost associated with the amortization of all capital equipment;
- the return on rate base (the costs related to borrowing that portion of rate base which is financed with debt, and the costs to provide a reasonable rate of return on that portion of rate base which is financed with equity).

Yukon Energy Corporation
NOTES TO FINANCIAL STATEMENTS
December 31, 2001 (tabular amounts in thousands of dollars)

In the second stage, the YUB approves how the revenue will be raised. This stage essentially determines the electricity rates for the various customer classes in the Yukon: residential, government, commercial and industrial. This process is guided mainly by a cost-of-service study which allocates utility costs to the various customer classes on the basis of appropriate costing principles. The determination of rates is also affected by Orders-In-Council, which give specific government direction to the Board.

Normally, the Corporation applies for rates in advance of the applicable years. A hearing takes place and rates are approved as final as a result of the hearing. Interim hearings and interim rates may be used to deal with unforeseen circumstances.

Capital assets

Capital assets are stated at cost which includes materials, direct and indirect labour, an appropriate allocation of administrative overhead and finance charges capitalized during construction, less accumulated amortization. Amortization is based on the straight line method over the estimated economic life of the assets as follows:

Generation	
Hydro-electric plants	40 to 65 years
Diesel plants	15 to 25 years
Transmission	25 to 35 years
Distribution	20 to 30 years
Buildings	20 to 30 years
Transportation	13 to 14 years
Other equipment	5 to 15 years

The Corporation capitalizes development studies and an allowance for funds used during construction (AFUDC) at a rate approved by the Yukon Utilities Board for debt and equity funds.

Certain additions are made with the assistance of cash contributions where the estimated revenue is less than the cost of providing service or where special equipment is needed to supply customers' specific requirements. These contributions are amortized to income on the same basis as and offset the amortization charge of the assets to which they relate. Capital assets are disclosed net of unamortized contributions. Upon retirement or disposal, any gain or loss is charged to income in the current year for assets depreciated on an individual basis, or charged to accumulated depreciation for assets depreciated on a pooled basis.

Inventories

Inventories which consist of materials, supplies and diesel fuel are recorded at the lower of average cost or replacement value.

Deferred charges

Deferred charges are recorded at cost less accumulated amortization.

Yukon Energy Corporation
NOTES TO FINANCIAL STATEMENTS
December 31, 2001 (tabular amounts in thousands of dollars)

All demand side management expenditures related to administration expenses and information programs are expensed as incurred, while costs related to specific incentive programs are deferred and amortized to earnings on a straight-line basis over five years.

Planning and study costs related to research projects and operations are expensed as incurred. Costs related to potential capital development projects which are abandoned are amortized to earnings on a straight-line basis over five years starting in the year that the project is abandoned.

Costs related to water license renewals are deferred and amortized to earnings on a straight-line basis over the term of the existing license plus the expected term of the renewed license, which is generally a long term arrangement of 25 years.

Regulatory hearing costs are deferred and amortized to earnings on a straight-line basis over the period to which the hearing relates.

General equipment overhaul expenditures in excess of $250,000 are deferred and amortized to earnings on a straight-line basis over five years.

Other deferred charges are amortized to earnings on a straight-line basis over various terms approved by the Yukon Utilities Board.

Reserve for uninsured losses

The Corporation maintains a reserve for uninsured losses. An appropriation to the reserve of $50,000 is made annually as a charge to expenses. Uninsured losses are charged directly against the reserve.

Reserve for future removal and site restoration cost

The reserve is calculated based on the estimated cost of demolishing, dismantling, tearing down, or otherwise disposing of the asset, net of expected recoveries. These estimated costs are being provided for over the estimated useful life of the asset on a straight-line basis.

Revenue recognition

Revenue from the sale of power is recorded when electricity is delivered.

Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. This mainly affects revenue, accounts receivable, the reserve for future removal and site restoration and other long-term receivables. Actual results could differ from these estimates.

Yukon Energy Corporation
NOTES TO FINANCIAL STATEMENTS
December 31, 2001 (tabular amounts in thousands of dollars)

3. CASH AND CASH EQUIVALENTS

	2001	2000
Bank balance	$ 8,094	$ 4,740
Short-term investments	3	80
	$ 8,097	**$ 4,820**

Short term investments are monies invested in a pooled money market fund. The fixed term securities held in the fund have an average maturity less than 90 days. Earnings are distributed monthly on a pro-rata share of the total fund. Annual return on investment for 2001 was 2.64% (2000 — 6.03%).

The Corporation also has, if needed, an operating demand line of credit with its banker that allows the Corporation to borrow up to $10,000,000 at bank prime. The overdraft facility is guaranteed by the Yukon Government.

4. ACCOUNTS RECEIVABLE

	2001	2000
Retail energy sales	$ 2,235	$ 1,940
Wholesale energy sales	1,809	1,664
Fire insurance claim	1,231	4,787
Rate adjustment receivable	1,144	2,103
Anvil Range Mine revenue shortfalls	0	983
Other	219	120
	$ 6,638	**$ 11,597**

Accounts receivable includes $2,446,000 (2000 — $2,203,000) due from the Yukon Electrical Company Limited. The Corporation's sales to the Yukon Electrical Company Limited were approximately $14,981,000 (2000 — $15,020,000) but, due to the wholesale nature of the sales, the Corporation is not economically dependent on them.

5. FUNDS HELD IN TRUST

Funds held in trust represent holdbacks from payments made to the general contractor on the Mayo to Dawson Transmission Line Project. These will be held by the Corporation pending satisfactory completion of the project, at which time the monies will be released. An offsetting liability is recorded in accounts payable and is equal to the holdbacks held.

Yukon Energy Corporation
NOTES TO FINANCIAL STATEMENTS
December 31, 2001 (tabular amounts in thousands of dollars)

6. DIESEL CONTINGENCY FUND

The Diesel Contingency Fund was established with Board Order 1996-6 by the Yukon Utilities Board. The Fund is administered by the Corporation on behalf of the Yukon Utilities Board, and as such is recorded as a trust asset and a trust liability.

	2001	2000
Opening balance	$ (61)	$ (57)
Whitehorse Rapids Generating Facility fire adjustment	744	–
Interest	(1)	(4)
Closing balance	**$ 682**	**$ (61)**

The Whitehorse Rapids Generating Facility fire adjustment is the Corporation's calculation of the impact of the October 1997 fire to the Diesel Contingency Fund in 1999. In the April 26, 2002 filing to the Yukon Utilities Board on the impact of the fire, the Corporation has requested approval of this adjustment to the Diesel Contingency Fund.

7. CAPITAL ASSETS

			2001	2000
	Cost	Accumulated amortization	Net book value	Net book value
Hydro-electric and diesel plants	$ 124,487	$ 32,622	$ 91,865	$ 91,650
Transmission	19,417	6,353	13,064	13,010
Distribution	10,500	3,403	7,097	6,919
Buildings and other equipment	11,761	3,169	8,592	8,200
Transportation	1,204	187	1,017	734
Land	110	–	110	110
Construction-in-progress	6,275	–	6,275	1,437
	173,754	**45,734**	**128,020**	**122,060**
Less: contributions for plant extensions	5,788	814	4,974	2,610
	$ 167,966	**$ 44,920**	**$ 123,046**	**$ 119,450**

The above amounts exclude the costs of assets which were damaged and destroyed in the October 30, 1997 fire at the Whitehorse Rapids Generating Facility. The costs of the assets which were used to reconstruct the facility equalled $13,395,000 and are included in the capital asset costs above. As an offset, an amount equal to $11,604,000 representing insurance proceeds received to cover the cost of reconstruction is accounted for as a deferred revenue (see note 12). The difference, equal to $1,791,000 (2000 – $1,791,000), represents the value of betterments which improved the facility beyond the value replaced by the insurance proceeds.

Yukon Energy Corporation
NOTES TO FINANCIAL STATEMENTS
December 31, 2001 (tabular amounts in thousands of dollars)

8. RESERVE FOR UNINSURED LOSSES

	2001	2000
Opening balance	$ 316	$ 746
Provision	(50)	(50)
Reimbursement of fire-related costs	–	(503)
Losses incurred		
Forest fire	25	–
Wind storm	–	84
Whitehorse Rapids Generation interruption	–	36
Asset replacement	–	3
Closing balance	$ 291	$ 316

The Corporation's target balance for the reserve for uninsured losses is based on the Corporation's past experience. The Corporation will be applying to the Yukon Utilities Board for approval to increase the reserve.

As a result of the 1997 fire at the Whitehorse Rapids Generation facilities, approximately $503,000 was charged to the reserve during 1997 and 1998 ($100,000 for the deductible under the Corporation's insurance policy and $403,000 for fire-related diesel generation not specifically covered by the Corporation's insurance policy). Given that the Corporation was able to negotiate a "gain on insurance proceeds" under its insurance policy, the reserve was reimbursed in 2000 for these fire-related costs. However, all adjustments to the reserve are subject to the approval of the Yukon Utilities Board which the Corporation has requested in it's report to the Board on the impacts from the fire filed on April 26, 2002.

9. DEFERRED CHARGES

	Cost	Accumulated amortization	2001 Net book value	2000 Net book value
Relicensing	$ 4,753	$ 806	$ 3,947	$ 3,438
Feasibility studies	528	237	291	238
Downsizing costs	301	29	272	–
Generating equipment overhauls	834	695	139	308
Dam safety review	91	36	55	73
Diesel fuel price adjustment	73	–	73	111
	$ 6,580	$ 1,803	$ 4,777	$ 4,168

Deferred charges have been deferred and amortized in accordance with decisions of the Yukon Utilities Board.

The Corporation is authorized by Order In Council 1995/90 to adjust its rates to reflect fluctuations in the price of diesel fuel without the requirement for specific application to and approval of the Yukon Utilities

Yukon Energy Corporation
NOTES TO FINANCIAL STATEMENTS
December 31, 2001 (tabular amounts in thousands of dollars)

Board. Fluctuations in diesel fuel costs from approved levels are deferred and recovered or refunded over designated future periods prescribed by the Yukon Utilities Board through revised rates charged to customers.

10. LONG-TERM DEBT

The Corporation's long-term debt is summarized as follows:

	2001	2000
Government of Canada		
$40,000,000 flexible term note bearing interest at 7% repayable in annual installments of $1,000,000 interest and principal, with the balance due January 1, 2028	$ 29,302	$ 29,546
Yukon Development Corporation		
Unsecured advances bearing interest at 9.79% due one year after demand	17,158	17,158
Unsecured advances bearing interest at 8.94% due one year after demand	1,654	1,654
Unsecured advances bearing interest at 10.24% due one year after demand	1,627	1,627
Unsecured advances bearing interest at 9.17% due one year after demand	1,696	1,696
Unsecured advances bearing interest at 8.78% due one year after demand	3,285	3,285
Unsecured advances bearing interest at 7.12% due one year after demand	1,110	1,110
Unsecured advances bearing interest at 6.68% due one year after demand	4,216	4,216
Unsecured advances bearing interest at 7.49% due one year after demand	3,406	3,406
Unsecured advances bearing interest at 6.82% due one year after demand	796	796
Unsecured advances bearing interest at 6.96% due one year after demand	2,196	–
TD Canada Trust		
$12,400,000 term note bearing interest at 7.94% payable in monthly installments of $102,000 interest and principal, with the balance of $67,000 due October 31, 2016. The note is guaranteed by the Yukon Government.	10,754	11,130
	77,200	**75,624**
Less: current portion	723	687
	$ 76,477	**$ 74,937**

Yukon Energy Corporation
NOTES TO FINANCIAL STATEMENTS
December 31, 2001 (tabular amounts in thousands of dollars)

Government of Canada note

The proceeds of the Government of Canada flexible term note were part of the consideration used in 1987 to acquire the assets of Northern Canada Power Commission. The note is collateralized by a mortgage against the acquired assets.

The terms of the flexible term note provide for payments of principal and interest to be deferred and abated respectively, if power sales on the Whitehorse-Aishihik-Faro electrical power distribution system are less than specified amounts.

Long-term debt repayment

Scheduled repayments for all long-term debt are as follows:

2002	$ 723
2003	765
2004	806
2005	760
2006	892
Thereafter	73,254
	$ 77,200

Fair value

Fair value of $90,108,000 (2000 — $77,020,000) for all long-term debt was estimated using discounted cash flows based on an estimate of the Corporation's current borrowing rate for similar borrowing arrangements.

11. REGULATORY LIABILITIES

	2001	2000
Insurance proceeds held on behalf of ratepayers	$ 744	$ 1,488
Anvil Range Mine dewater revenue	1,060	598
	$ 1,804	**$ 2,086**

The Insurance proceeds held on behalf of ratepayers amount represents the residual balance of insurance proceeds after allocation against all known fire-related reconstruction and operation and maintenance costs. The Corporation is required to use the balance of the insurance proceeds to the benefit of ratepayers. The allocation of this amount will be the subject of a decision of the Yukon Utilities Board. On April 26, 2002, in accordance with Board direction, the Corporation filed its report to the Yukon Utilities Board related to the impacts of the fire. As part of this report, the Corporation has reported on potential impact to the Diesel Contingency Fund (see note 6). This may affect the ultimate allocation of insurance proceeds.

Yukon Energy Corporation
NOTES TO FINANCIAL STATEMENTS
December 31, 2001 (tabular amounts in thousands of dollars)

Anvil Range Mine dewater revenue derives from Rate Schedule 34 customers, of which the Anvil Range Mine represents the only customer in the class. As directed by the Yukon Utilities Board in Board Order 1998-5, the Corporation is deferring revenues collected from this rate class until application to the benefit of ratepayers is directed by the Yukon Utilities Board.

12. DEFERRED REVENUES

	2001	2000
Deferred gain on fire insurance proceeds - capital assets (net of amortization and adjustments $2,248,000 (2000 — $2,070,000))	$ 9,355	$ 9,534
Deferred maintenance reserve	–	74
	$ 9,355	**$ 9,608**

The deferred gain on fire insurance proceeds - capital assets represents the gain resulting from insurance proceeds received in relation to the reconstruction of facilities ($11,604,000 — see notes 7 and 11) in excess of net book value of assets destroyed by fire. The gain is being amortized to income at the same rate that the replacement assets are being amortized, as approved by the Yukon Utilities Board Order 2000-3 (see note 7). On April 26, 2002, in accordance with Board direction, the Corporation filed its report to the Yukon Utilities Board related to the impacts of the fire.

The maintenance reserve was set up to offset the future cost of maintenance related to compensation received by the Corporation under the Aishihik Order in Council 1997/12 passed by the Yukon Government. The reserve was established in 1997, and is being taken into income on a straight-line basis over 5 years.

13. RELATED PARTY TRANSACTIONS

Entity	Relationship	Transaction/Balance	Recorded As	2001	2000
Yukon Development Corporation	Parent	Interest payments	Finance charges	$ 3,111	$ 3,054
		Receivable for costs	Due from Yukon Development Corporation	596	1,429

The transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. These balances are payable on demand and have arisen from the sales of products and services referred to above.

Yukon Energy Corporation
NOTES TO FINANCIAL STATEMENTS
December 31, 2001 (tabular amounts in thousands of dollars)

14. PENSION COSTS AND OBLIGATIONS

The Corporation has a defined benefit pension plan which provides for pensions based on length of service and final average earnings. The cost of pension benefits is determined using the projected benefits method, prorated on service, and reflects management's best estimates of investment returns, wage and salary increases, and age at retirement. Adjustments resulting from the plan enhancements, experience gains and losses, and changes in assumptions are amortized over the estimated average remaining service life of employees. Pension costs include the current cost of service and amortization of past service benefits and plan enhancements, and experience gains and losses. Amortization is on a straight-line basis over the expected average remaining service life of pension plan members, which is currently 18 years.

The Corporation has contracted with external organizations to provide services of trustee, administrator, and investment manager for the pension plan.

An actuarial valuation for funding purposes was performed as of January 1, 2001 by the consulting actuarial firm AON Consulting Inc. The results of the January 1, 2001 valuation have been projected to December 31, 2001 in accordance with generally accepted actuarial standards. The actuarial valuation includes services rendered by members under the Yukon Energy Corporation Employees Pension Plan from January 1, 1998 to December 31, 2001 and service credits in respect of pre-1998 service transferred to the Yukon Energy Corporation Employees Pension Plan from the Canadian Utilities Employees Pension Plan under the Acknowledgement and Agreement between Yukon Energy Corporation and Yukon Electrical Company Ltd., dated February 5, 1999.

The fair value of the plan assets is based on market values as reported by Royal Trust as at December 31, 2001.

The following table sets out the assumptions and pension amounts as at December 31, 2001. The Corporation's employees had the option to belong to the Corporation's defined benefit pension plan or a Registered Retirement Savings Plan (RRSP). Employees joining the Corporation after January 1, 2002 can only join the RRSP. As at December 31, 2001, the Corporation's defined pension plan had 42 members, and the RRSP had 15 members.

Yukon Energy Corporation
NOTES TO FINANCIAL STATEMENTS
December 31, 2001 (tabular amounts in thousands of dollars)

Pension benefits are based on:

- years of pensionable service,
- the average annual earnings during any 5 consecutive years of pensionable service where earnings are the highest, and
- the average of the years maximum pensionable earnings (Canada Pension Plan) for the same 5-year period.

Annual cost of living increases to a maximum of 3.00% are provided to pensioners. The Corporation contributes amounts as prescribed by an independent actuary.

Employees make contributions to the plan as follows:

- 3.5% of earnings up to the year's maximum pensionable earnings
- 5.0% of earnings in excess of year's maximum pensionable earnings

to a maximum of $2,500 per year.

Information about the corporation's defined benefit plan as at December 31, in aggregate, is as follows:

	2001	2000
Discount rate	6.50%	7.00%
Expected long-term rate of return on plan assets	7.00%	7.00%
Assumed rate of salary escalation	3.75%	3.75%
Expected average remaining service life of employees	18 years	18 years
Benefit obligation determined by actuarial valuation	$ 4,862	$ 4,397
Fair value of plan assets	4,183	4,262
Plan deficit	(679)	(135)
Accrued benefit liability	(95)	(35)
Pension expense	268	202
Employer contributions	208	201
Employee contributions	79	87
Benefits paid	(206)	(8)

The Accrued benefit liability has been recorded on the Corporation's books of account and is included in accounts payable on the balance sheet at December 31, 2001.

Yukon Energy Corporation
NOTES TO FINANCIAL STATEMENTS
December 31, 2001 (tabular amounts in thousands of dollars)

15. CONTINGENCIES AND COMMITMENTS

(a) Mayo to Dawson transmission line contract

During 2001, the Corporation entered into a contract for the construction of a transmission line from the Mayo hydro generation plant to the Dawson distribution system. The total cost of the contract is $22 million payable over the course of construction which is estimated to be 19 months. The cost of the contract will be financed via a combination of debt and grants from the Corporation's parent and a portion will be financed by internally generated funds. As of December 31, 2001, the Corporation has spent $5,458,000 toward the completion of this contract. The total cost of the project will be reviewed by the Yukon Utilities Board as part of the Corporation's next rate application.

(b) Compensation arising from water re-licensing activities

The Corporation is pursuing renewal of the water license for the Aishihik Hydro Generation Facility for the fourth quarter of 2002. The decision of the Yukon Water Board, which has jurisdiction in this matter, will likely include compensation to local water users affected by the operation of the facility as defined under the Yukon Waters Act. The Yukon Water Board has not rendered a decision to date. As such, the amount owing by the Corporation is not determinable at this time.

16. ENVIRONMENTAL LIABILITIES

The Corporation's activities are subject to various federal and territorial laws and regulations governing the protection of the environment or to minimize any adverse impact thereon. The Corporation conducts its operations so as to protect public health and the environment and believes its operations are materially in compliance with all applicable laws and regulations. Liabilities will be recorded when the occurrence of an environmental expenditure, related to present or past activities of the Corporation, is considered probable and the costs can be reasonably estimated. To date, no such specific liabilities have been recorded in the Corporation's accounts.

17. COMPARATIVE FIGURES

Certain 2000 figures, which are presented for comparative purposes, have been reclassified to agree with the current year's presentation.

AUDITED FINANCIAL STATEMENTS

Energy Solutions Centre Inc.

A complete 2001 annual report for the Energy Solutions Centre has been published separately.

KPMG LLP
Chartered Accountants
200 – 206 Seymour Street
Kamloops BC V2C 6P5
Canada

Telephone (250) 372-5581
Telefax (250) 828-2928
www.kpmg.ca

Energy Solutions Centre Inc.
Financial Statements
For the year ended December 31, 2001

Auditors' Report

To the Shareholder of
Energy Solutions Centre Inc.

We have audited the balance sheet of Energy Solutions Centre Inc. as at December 31, 2001 and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2001 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

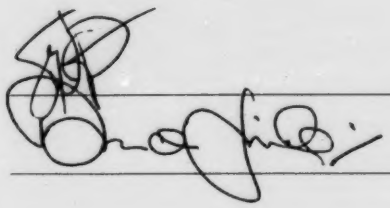
Kamloops, Canada
March 15, 2002

KPMG LLP, a Canadian owned limited liability partnership established under the laws of Ontario, is a member firm of KPMG International, a Swiss association.

Energy Solutions Centre Inc.
BALANCE SHEET

December 31, 2001		2001
ASSETS		
Current		
Cash	$	463
Accounts receivable		9,875
		10,338
Advances to related party (Note 3)		137,819
Capital assets (Note 2)		104,362
	$	252,519
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current		
Accounts payable and accrued liabilities	$	78,193
		78,193
Deferred capital revenue		95,718
		173,911
Shareholder's equity		
Share capital (Note 4)		100
Retained earnings		78,508
		78,608
	$	252,519
Contingencies (note 5)		

On behalf of the Board:



Director

Director

Energy Solutions Centre Inc.
STATEMENT OF OPERATIONS AND RETAINED EARNINGS

For the year ended December 31, 2001		2001
Revenue		
Program delivery	$	701,090
Course fees and equipment rental		26,276
Amortization of deferred capital revenue		8,393
		735,759
Expenses		
Advertising and promotion		9,070
Amortization		8,393
Board		1,589
Consulting fees		385,529
Grants		8,826
Office and general		24,022
Professional fees		16,039
Rent		34,049
Telephone		4,308
Training courses		36,252
Travel		35,328
Wages and benefits		93,846
		657,251
Net income for the year, being retained earnings, end of year	$	78,508

Energy Solutions Centre Inc.
BALANCE SHEET

December 31, 2001		2001
ASSETS		
Current		
Cash	$	463
Accounts receivable		9,875
		10,338
Advances to related party (Note 3)		137,819
Capital assets (Note 2)		104,362
	$	252,519
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Contingencies (note 5)

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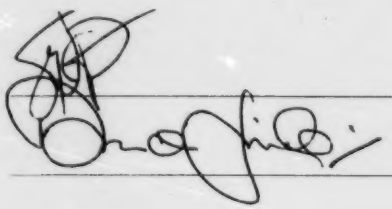

Director

Director

Energy Solutions Centre Inc.
STATEMENT OF OPERATIONS AND RETAINED EARNINGS

For the year ended December 31, 2001		2001
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Travel		35,328
Wages and benefits		93,846
		657,251
Net income for the year, being retained earnings, end of year	$	78,508

Energy Solutions Centre Inc.
STATEMENT OF CASH FLOWS

For the year ended December 31, 2001		2001
Cash provided by (used in)		
Operating activities		
Net income for the year	$	78,508
Item not involving cash		
Amortization of capital assets		8,393
		86,901
Changes in non-cash working capital balances		
Accounts receivable		(9,875)
Accounts payable and accrued liabilities		78,193
		155,219
Investing activities		
Purchase of capital assets		(112,755)
Common shares issued		100
		(112,655)
Financing activities		
Advances to related party		(137,819)
Deferred capital revenue		95,718
		(42,101)
Cash, end of year	$	463
Supplementary information		
Interest paid		Nil
Taxes paid		Nil

Energy Solutions Centre Inc.
STATEMENT OF CASH FLOWS

For the year ended December 31, 2001		2001
Cash provided by (used in)		
Operating activities		
Net income for the year	$	78,508
Item not involving cash		
Amortization of capital assets		8,393
		86,901
Changes in non-cash working capital balances		
Accounts receivable		(9,875)
Accounts payable and accrued liabilities		78,193
		155,219
Investing activities		
Purchase of capital assets		(112,755)
Common shares issued		100
		(112,655)
Financing activities		
Advances to related party		(137,819)
Deferred capital revenue		95,718
		(42,101)
Cash, end of year	$	463
Supplementary information		
Interest paid		Nil
Taxes paid		Nil

Energy Solutions Centre Inc.
NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2001

1. SIGNIFICANT ACCOUNTING POLICIES

Nature of business

The Company is incorporated under the laws of Yukon and is engaged in promoting the potential of energy efficiency and green power as a solution to climate change by providing services to implement projects that will reduce greenhouse gas emissions and reduce energy costs in Yukon.

Financial instruments

The Company's financial instruments consist of cash, accounts receivable, accounts payable, and amounts due to related parties. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

Due to their short-term nature the fair values of these financial instruments approximate their carrying values.

Capital assets

Capital assets are stated at cost less accumulated amortization. Amortization is provided over the estimated useful life of the assets, on a straight-line basis, at the following annual rates:

Alternative energy equipment	11%
Furniture and fixtures	7%
Computer equipment	20%
Computer software	15%

Deferred capital revenue

Capital asset funding received from the Federal Government through the parent company is recognized as revenue at the same rate as capital assets are amortized.

Income taxes

The Centre is not subject to federal or territorial income taxes, by Section 149 (4) of the Income Tax Act, as the sole shareholder is a territorial crown corporation.

Revenue recognition

Revenue is recognized when services are provided.

Measurement uncertainty

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Energy Solutions Centre Inc.
NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2001

2. CAPITAL ASSETS

		2001
	Cost	Accumulated amortization
Alternative energy equipment	$ 3,088	$ (226)
Furniture and fixtures	13,728	(430)
Computer equipment	85,115	(7,080)
Computer software	10,824	(657)
	$112,755	**$ (8,393)**
Net book value		**$104,362**

3. ADVANCES TO RELATED PARTY

The following table summarizes the Company's related party transactions for the year:

	2001
Revenue	
Sales of product to:	
Parent company	$701,090

These transactions are in the normal course of operations and are measured at the exchange value (the amount of consideration established and agreed to by the related parties), which approximates the arm's length equivalent value for sales of product.

At the end of the year, the advances to related party are as follows:

	2001
Parent company	$137,819
	$137,819

These balances are non-interest bearing with no specific terms of repayment and have arisen from the sales of product and provision of services referred to above.

The parent company also provides financial, management, and administrative services to the company without consideration.

During the year the company paid $13,397 for consulting fees to an officer. These transactions are in the normal course of operations and are measured at the exchange value (the amount of consideration established and agreed to by the related parties), which approximates the arm's length equivalent value for sales of product.

Energy Solutions Centre Inc.
NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2001

4. SHARE CAPITAL

Authorized

unlimited number of common shares

Issued

	2001
1 common share	$100

5. CONTINGENCIES

The Company is self-insured up to $1,000,000. Losses resulting from any claims will be charged to operations when paid.

6. ECONOMIC DEPENDENCE

Sales to Yukon Development Corporation, the parent company, represent 96% of the Company's total sales for the year ended December 31, 2001.

7. OPERATIONS

The company was incorporated on December 15, 2000, and commenced operations in January 2001.

PHOTOGRAPH CREDITS

Yukon Development Corporation and Yukon Energy Corporation Annual Report

CWEA: Canadian Wind Energy Association
ESC: Energy Solutions Centre
YE: Yukon Energy
YG: Yukon government
WS: Wilson Studios
BB: Bruce Barrett
CA: Cathie Archbould
MB: Marten Berkman
PL: Peter Long
RC: Randy Clarkson
SS: Sean Sheardown
ST: Susan Thompson

cover: Whitehorse dam (PL)

back of letter: board of directors (MB)

facing p.1: wind turbines on Haeckel Hill (PL)

p.2: Mayo dam powerhouse (CA)

p.3: Whitehorse 1, 2, 3 powerhouse, diesel plant (PL)

p.4: testing for the Six-Pack Pilot Project (CA); ESC workshop (ESC)

p.5: two views of workers on the House Calls project (CA, ESC)

p.6: using the P-Track to test for air quality (CA, ESC); ESC workshop (ESC)

p.7: signing Canada-Yukon agreement (YG); Yukon hotels (YG, PL)

p.8: inside and outside views of a micro-hydro facility at Fraser (RC)

p.9: wind monitoring equipment (YE); clearing along the Mayo to Dawson transmission line (CA)

p.10: Ice Lake (PL)

p.11: recycling corner at YDC/ESC offices (PL); lake trout fry, stocked lake (ST)

p.12: poster for First Nations scholarship program; two views of 2001 science fair (ESC)

p.13: cover of YDC publication on hydropower; view from top of Haeckel Hill (PL)

p.14: two views of downtown Whitehorse (PL)

p.15: two views of working on the Mayo to Dawson City transmission line (CA)

p.16: YDC board of directors (MB)

p.18-19: YDC board of directors members (MB, PL)

p.20: Whitehorse dam, spillway, #4 powerhouse (PL)

p.42: Mayo dam (YE)

p.43: wind turbines on Haeckel Hill (PL); Moose Creek lodge (CA)

p.44: Whitehorse dam diesel plant (PL)

p.46: at the Whitehorse Fishway (PL)

p.47: Yukon Energy office building in Dawson City (YE); Dawson diesel plant (YE)

p.48: two views along the Mayo to Dawson City transmission line (CA)

p.49: brochure for First Nations scholarship program; view of bridge over Yukon River at Carmacks (YG)

p.51: John Maissan at Old Crow wind monitoring station (YE) and receiving award from Canadian Wind Energy Association (CWEA); cover of YE publication on wind power

p.52: solar-hybrid unit at Yukon International Storytelling Festival (BB); berm at Aishihik Lake (SS)

p.53: power canal at Aishihik dam (YE); building berm at Aishihik Lake (SS)

p.54: salmon fry at the Whitehorse Fishway (PL)

p.55: releasing the fry (CA); bird watching at Marsh Lake (PL); holding fry (CA)

p.57: view from control room at Whitehorse dam (PL); transformers (CA)

p.58: sneaker day interview (PL); career fair (PL); Yukon energy fair (CA)

p.59: kayaking below Whitehorse dam (PL)

p.60: covers of two guides published by YE; along the Millennium Trail (PL); YE booth at Yukon Energy Fair (PL)

p.61: scholarship recipients Brett Stevenson and Stephen Kirkham (CA); view from above of Whitehorse Fishway (PL); watching the fish in the fish ladder at the Whitehorse Fishway (YG)

p.66: YE board of directors (MB)

p.67: Don Willems (WS)

p.68: YE board of directors members (MB, PL)

p.70: Aishihik Lake (YE)

p.88: ESC building (PL)